ETERNA FINANCIAL GROUP

QUARTERLY
REVIEW

JUNE 2026

MARKET SUMMARY AND ASSET ALLOCATION

MIDDLE EAST DE-ESCALATION GIVES MARKETS A BOOST

June saw a significant easing of geopolitical tensions in the Middle East, helping to support investor confidence. On June 19, the United States and Iran announced the signing of a memorandum of understanding aimed at ending the conflict that began in February. The agreement includes the launch of formal negotiations to establish a sustainable framework.

Although several key issues remain to be discussed, including Iran's nuclear program, the possible lifting of economic sanctions, and the terms of reconstruction, markets welcomed the news.

This development has helped dispel some of the uncertainty that has weighed on the global economy since the start of the conflict. That said, a certain degree of skepticism persists, given past precedents, and the risk of negotiations failing cannot be ruled out entirely.

The month also brought another major headline: SpaceX's highly anticipated initial public offering, the largest in years. Strong investor demand, which far outstripped supply, underscored continued appetite for companies tied to technological innovation and space exploration.

In the short term, the new listing could benefit from significant technical support, particularly through its swift inclusion in certain stock indices and the resulting demand from index funds. Over the longer term, however, questions remain about the company's rich valuation, a phenomenon often seen in highly publicized IPOs.

Markets stay strong despite lofty valuations

Overall, despite geopolitical uncertainty and some elevated valuations, markets continued to draw support from solid structural factors, including investment in artificial intelligence (AI), fiscal stimulus measures, and anticipated productivity gains.

In Canada, the S&P/TSX rose 7% in the second quarter, bringing its year-to-date gain to 11.2%. The performance was driven largely by strength in key sectors, particularly energy and financials.

U.S. markets also fared well. The S&P 500 gained 15.2% in the quarter, bringing its year-to-date return to 10.2%. The Dow Jones, meanwhile, is up 8.9% since the start of 2026, while the tech-heavy Nasdaq continues to stand out with a 12.8% gain. Internationally, results were more mixed. European markets posted smaller gains: year-to-date, the FTSE 100 (UK) is up 5.7%, the CAC 40 (France) 3.1%, and the DAX (Germany) 2.1%.

For its part, however, Japan stood out. Its stock market delivered an exceptional second quarter, returning 37.2% and bringing its year-to-date gain to 39.2%. The performance reflects a combination of factors, including renewed interest from international investors.

Asset allocation: staying disciplined in a favourable environment

Given this shifting market environment, our investment approach remains focused on balancing short-term risk management with the pursuit of long-term opportunities.

The conflict in the Middle East has weighed on global economic growth, fuelling volatility and putting upward pressure on energy prices. That said, we think the risk of a recession remains limited for now. Our baseline scenario calls for a modest slowdown in growth relative to pre-conflict levels.

MARKET SUMMARY AND ASSET ALLOCATION (CONTINUED)

Regarding inflation, pressures could persist in the near term, reflecting past disruptions and swings in commodity prices. We expect these pressures to ease gradually over the coming year.

Against this backdrop, an aggressive round of monetary tightening in the near term seems unlikely. Worth mentioning is that the recent rise in bond yields has improved the relative appeal of fixed-income securities, offering a more attractive balance between return and risk. As for equities, our outlook remains constructive. Despite elevated valuations in certain sectors, particularly technology, earnings growth prospects remain favourable, supported by structural trends such as AI and innovation-related investment.

Our asset allocation therefore reflects a balanced approach, one designed to capture market opportunities while remaining cautious in the face of lingering uncertainty.

ECONOMY AND FIXED INCOME

CANADA AND THE U.S.: DIVERGING ECONOMIC PATHS

Since our last quarterly review, the economic repercussions from the conflict in the Middle East have intensified. Rising energy prices, compounded by ongoing disruptions in international supply chains, are weighing on both economic growth and inflation worldwide. At the same time, the U.S. administration's approach to tariffs continues to keep uncertainty elevated. The North American macroeconomic landscape is currently defined by a widening gap between the economic paths of the United States and Canada.

The Canadian economy has shown signs of weakness in recent months, with two consecutive quarters of contraction in real GDP. Although this meets the technical definition of a recession, the reality is more nuanced.

According to the C.D. Howe Institute's Business Cycle Council, a recession requires a pronounced, broad-based, and persistent decline in economic activity. By that standard, current conditions do not appear to qualify.

The labour market is a case in point. Job creation was particularly strong in May, especially in full-time positions, pushing the employment level close to its all-time high. Such momentum is difficult to reconcile with a classic recessionary environment. In addition, household spending remains resilient, helping to support economic activity.

Rather than a broad-based recession, the Canadian economy appears to be going through an adjustment. That said, significant uncertainty remains. Population growth is slowing, and trade tensions with the United States continue to weigh on the outlook. These factors could hold back investment and the pace of economic recovery.

From an inflation perspective, the recent rise in energy prices has yet to translate into broad-based increases in consumer prices. However, risks remain. An escalation in trade tensions or persistently high energy prices could force the Bank of Canada to adjust its policy, either by providing further support to growth or by tightening financial conditions.

The U.S. economy, by contrast, continues to stand out for its strength. Massive investment in AI remains a key growth driver, supporting productivity gains and corporate profitability. However, the economy's strength is not built on this sector alone. The labour market continues to be robust, with steady job creation, particularly in the second quarter. This buoyancy is helping sustain high consumer spending, a central pillar of the U.S. economy. It is fuelling certain inflationary pressures. Inflation recently reached a multi-year high, well above the U.S. Federal Reserve's target.

Despite this context, household spending remains resilient. Inflation has squeezed purchasing power, but households have kept spending, supported by rising financial markets and a slowdown in savings.

Against this backdrop, expectations for monetary policy have shifted considerably. Markets, which had previously priced in rate cuts, are now leaning toward a more restrictive scenario, given persistent inflationary pressures and a resilient labour market.

Bond market: volatility amid a record issuance

The bond market saw significant volatility over the quarter, reflecting the tension between slowing growth and inflationary pressures.

In Canada, signs of moderating core inflation and slower economic growth contributed to a decline in interest rates. Near the end of the quarter, the 10-year government bond yield fell to its lowest level in several months, resulting in a 2% gain for the FTSE Canada Universe Bond Index.

ECONOMY AND FIXED INCOME (CONTINUED)

Primary market activity was strong, with several foreign issuers entering the market. A number of U.S. technology companies took advantage of favourable conditions to raise capital in Canadian dollars. Amazon's first Canadian-dollar bond issue, in particular, drew strong investor interest: at C$14 billion, it set a record for the largest bond issue in Canada. In a single offering, Amazon raised more than the combined outstanding debt of National Bank and Telus.

Overall, the bond market continues to face a complex environment. The outlook depends largely on developments in inflation, economic growth, and monetary policy. Volatility could persist as a result, making a diversified approach essential to effectively navigate the months ahead.

Bobby Bureau, MBA, CIM®
Senior Manager, Fixed Income
Portfolio Manager

KEY TAKEAWAYS

- The North American macroeconomic backdrop is defined by a widening gap between the economic paths of the United States and Canada.
- The Canadian economy has shown signs of weakness in recent months, but appears to be going through an adjustment rather than a broad-based recession.
- The U.S. economy continues to stand out for its strength, driven in part by massive investment in AI.
- Our asset allocation reflects a balanced approach, given favourable earnings growth prospects and the improved relative appeal of fixed income securities amid rising bond yields.

CANADIAN, U.S. AND INTERNATIONAL EQUITIES

NORTH AMERICAN AND ASIAN MARKETS REACH NEW HIGHS

Canadian equities: driven by financials and energy

The Canadian stock market went through a volatile quarter but ultimately climbed to record highs. The S&P/TSX was initially supported by a surge in oil and certain other commodity prices affected by the conflict in the Middle East, with the heavy weighting of the energy and materials sectors providing an edge over other developed markets. The announcement of the agreement between the United States and Iran in mid-June then sparked a powerful market rally, as risk appetite returned in force once the geopolitical risk premium lifted. Industrial metals, particularly copper, also benefited from an improved outlook for the global economy.

Strong results from the major banks, meanwhile, lifted the financial sector, which accounts for nearly a third of the index. Within our Canadian equity portfolios, the financial services and industrials sectors were the main drivers of performance over the quarter.

The Canadian banking sector had an excellent quarter, with results from the major banks confirming an improving credit environment despite an uncertain macroeconomic backdrop. The banks also benefited from regulatory easing by the Office of the Superintendent of Financial Institutions.

Bombardier continues to benefit from a robust business jet market and positive news on the defence front. The company also surprised investors with a very strong quarter for free cash flow, further strengthening its financial position.

A pullback in gold prices, driven by a stronger U.S. dollar and lower odds of monetary tightening, weighed on the gold sector. Agnico Eagle Mines was no exception, falling 22% during the quarter.

Engineering and software companies continued their decline on fears surrounding AI adoption, an impact we believe the market continues to misjudge.

After a strong first quarter, buoyed by geopolitical tensions in the Middle East, shares of Canadian Natural Resources and Suncor have pulled back since the end of May. The decline was mainly driven by progress in negotiations aimed at easing tensions in the region and restoring oil transport through the Strait of Hormuz.

CANADIAN, U.S. AND INTERNATIONAL EQUITIES (CONTINUED)

U.S. equities: technology back in the driver's seat

Geopolitics and technology continued to drive movements in the U.S. stock market in the second quarter of 2026.

Unlike the previous quarter, risk appetite improved markedly as the war in the Middle East showed signs of easing. The S&P 500 gained more than 15%, its best quarterly performance since 2020, with 9 of the index's 11 sectors ending the period in positive territory.

The technology sector emerged as the clear winner and the main contributor to performance, rising nearly 32% on a market rotation into the AI theme, led primarily by semiconductors. Investors piled into companies making chips that complement Nvidia's, betting that a massive expansion in AI-related capital spending would benefit a broader range of companies.

In June, profit-taking in the technology sector allowed more cyclical and defensive areas of the market to outperform, particularly industrials, financials, and health care. Energy, the top performer in the first quarter, posted the steepest underperformance during the second quarter due to a sharp drop in oil prices.

The Magnificent Seven continue to account for roughly 32% of the S&P 500's weight, but their contribution to the index's return has diminished. Year to date, they have contributed just 1% of the index's return, far below the 30% to 60% range seen historically. That said, the group's earnings growth outlook remains well above that of the rest of the index, at 38% versus 19%.

While both of our U.S. equity strategies posted positive returns in absolute terms during the quarter, they each underperformed the S&P 500.

The U.S. dividend strategy performed in line with expectations amid a market recovery, generating a net return of 8.3% in Canadian dollars. Its underperformance relative to the index was mainly due to a significant underweight in technology, along with weaker performance in the energy sector. Judicious stock selection within health care and industrials, combined with an overweight position in both sectors, contributed positively to performance.

The U.S. Equity Fund, meanwhile, generated a net return of 8.6% in Canadian dollars. Its underperformance relative to the index was attributable to stock selection within the semiconductor (technology) and medical equipment (health care) sub-sectors. Strong stock selection in industrials and within the software (technology) sub-sector contributed positively to performance, both in absolute and relative terms, notably through Datadog and Palo Alto Networks.

International equities: Japan and Europe stand out

International markets went through an eventful quarter, with a spike in oil prices tied to the Middle East conflict and the closure of the Strait of Hormuz, before rebounding sharply following the announcement of the agreement between the United States and Iran.

In Europe, markets closed the quarter at record levels, with the Stoxx 600 reaching new peaks on falling energy prices and cooling inflation. The relief has eased pressure on the European Central Bank, which had been forced to raise rates in June in response to the oil shock. The picture remains mixed, however: Germany cut its 2026 growth forecast in half, citing the impact of the war in Iran and rising energy costs for households and businesses.

In Asia, Japan stood out in particular, with the Nikkei climbing to record highs, driven by enthusiasm for AI and semiconductor-related stocks, a weak yen, and steadily improving corporate sentiment.

The International Equity Fund had an excellent quarter, posting a net return of 11.8% in Canadian dollars. The AI theme was the main driver of the Fund's performance this quarter, with very favourable positions in the semiconductor ecosystem. Tokyo Electron, Japan's largest player in this segment, was the top performer on the Tokyo Stock Exchange. Dutch firm ASML, meanwhile, benefited from accelerating capital spending by foundries and memory chip makers struggling to keep up with AI-driven demand.

Germany's Infineon also contributed strongly to the Fund's performance, as the market began to recognize the growing role of its power semiconductors in data centres, along with signs of stabilization in its automotive and industrial markets, which appear to have bottomed out. Panasonic, finally, benefited from strong momentum in the Japanese market and renewed investor interest in its energy division, which is well positioned for growing demand for energy storage and management solutions.

Negative contributors were concentrated in stocks that had initially benefited from geopolitical tensions but reversed course after the agreement between the United States and Iran. Shell fell as crude prices tumbled. Marubeni saw a similar pullback.

CANADIAN, U.S. AND INTERNATIONAL EQUITIES (CONTINUED)

BAE Systems, after a long stretch of strong performance fuelled by rising defence budgets and the Middle East conflict, faced profit-taking as easing tensions led some investors to question the pace of future orders. We nonetheless remain convinced that the rearmament theme in Europe, and its Canadian and U.S. versions, remains structural and extends well beyond the current conflict.

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Maxime Bertrand Gilbert
Portfolio Manager, Equities

Philippe Tardif
Vice President, Eterna Financial Group

ALTERNATIVE INVESTMENTS

PRIVATE CREDIT WEATHERS THE NOISE AS PRIVATE EQUITY MARKETS BEGIN TO CRYSTALLIZE

Private credit: uncertainty appears to be peaking

The second quarter confirmed that rate volatility, geopolitical tensions, and heavy media scrutiny of the asset class all remain in play. Several indicators, however, suggest that redemption pressure has peaked. Oaktree, one of our partners, received redemption requests equal to 4.5% of units for the offer maturing June 12. Across the sector, the picture varies from one manager to the next, with several large direct lending platforms continuing to see redemptions above 10%. This underscores the underwriting discipline and borrower alignment that support our manager selection.

Private credit fundamentals remain sound. For the Cliffwater Direct Lending Index, interest income has remained the primary driver of returns, and payment-in-kind interest held steady at 0.7% of capital. Loans past due 90 days or more remain low, and private credit continues to offer a meaningful return premium over public credit.

Stress has concentrated among smaller borrowers. A number of the defaults and fraud cases that made headlines originated with bank lenders, not with traditional private credit managers. We are entering a market where manager selection and underwriting discipline will make the difference.

Our exposure remains largely insulated from this turbulence. Our Eterna Private Loans Fund (12-month net return of 4.15%) is composed of Quebec real estate debt, not credit to software companies at the centre of AI-related concerns. We also trimmed our private credit position in the Diversified Fixed Income Fund (12-month net return of 4.51%) earlier this year. This positioning reflects the merits of a conservative approach built on senior loans and sound guarantees.

Infrastructure: stability as a strategic asset

In an environment marked by rate volatility and geopolitical uncertainty, infrastructure is fulfilling its role as a portfolio stabilizer.

Backed by real assets, these investments generate cash flows that are often inflation-linked, helping preserve portfolios' real purchasing power as prices rise.

Beyond this stability, global energy demand is growing at an unprecedented pace, fuelled by digitization and the rise of AI, transportation electrification, and industrialization. This dynamic is supporting robust growth in infrastructure capital.

This is the very philosophy reflected in our Infrastructure Fund (12-month net return of 6.07%). The Fund favours a diversified core infrastructure approach across the energy, transportation, and social infrastructure sectors, where long-term contracts or regulated frameworks generate stable, predictable cash flows.

ALTERNATIVE INVESTMENTS (CONTINUED)

Private equity: SpaceX delivers on crystallization

On June 12, SpaceX went public at US$135 a share, representing a valuation of approximately US$1,750 billion and raising US$75 billion, the largest IPO in history. For the Eterna Multi-Strategy Fund (12-month net return of 7.21%), which held a position in SpaceX, this marks a concrete crystallization event: the shift from private valuation to market liquidity.

Given the company's current valuation multiples, we think much of the value creation and growth potential is already reflected in the IPO price.

Over five years, the company's value has grown more than twentyfold, with nearly all of that appreciation occurring while SpaceX was still private. The IPO marks the end of a value-creation cycle, not its beginning.

Most of the position will be sold down as insider liquidity windows open. With the bulk of the appreciation already captured while the company was private, our discipline now calls for realizing that gain rather than holding on to exposure to a public stock.

Anthropic, another of our portfolio companies, just closed a financing round exceeding US$900 billion, while OpenAI has already filed for an IPO. These future IPOs should offer further opportunities to crystallize the value held within our private market portfolios.

Philippe Tardif
Vice President, Eterna Financial Group

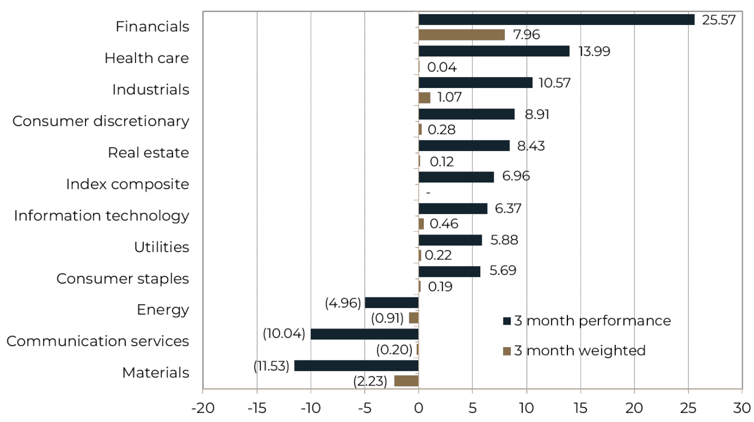
ETERNA FINANCIAL GROUP

QUARTERLY REVIEW

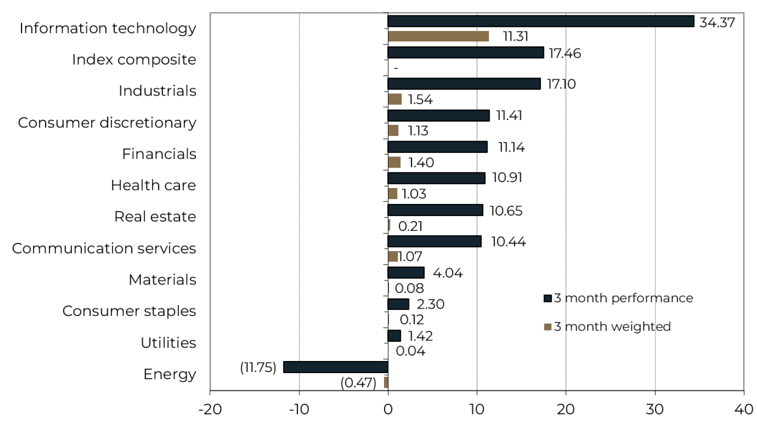
JUNE 2026

SECTOR PERFORMANCE

Canadian Equities (S&P/TSX)



U.S. Equities (S&P 500)



SOURCE: Bloomberg. Returns in Canadian dollars, including dividends as at June 30, 2026

ECONOMIC DATA AND CURRENCIES

STATISTICS AS AT JUNE 30, 2026								
CANADA			UNITED STATES			CURRENCIES		
Unemployment (May)	6.6 %	↓	Unemployment (May)	4.3 %	-	USD / CAD	0.70	↑
IPC (May)	3.2 %	↑	IPC (May)	4.2 %	↑	USD / EUR	1.14	↑
3-month T-Bills	2.28 %	↓	3-month T-Bills	3.81 %	↑	JPY / USD	162.55	↓
5-year bonds	3.02 %	↓	5-year bonds	4.23 %	↑			
10-year bonds	3.38 %	↓	10-year bonds	4.47 %	↑			
S&P/TSX	34,857	↑	Dow Jones - Industrial	52,319	↑			
			S&P 500	7,499	↓			

The arrow indicates the trend since the publication of the last monthly data or end of the month.

SOURCE: Bloomberg.

MARKET RETURNS

TOTAL RETURNS IN CANADIAN DOLLARS AS OF JUNE 30, 2026	YTD	3 months	1 year	3 years	5 years
FTSE Canada 91 Day TBill Index	1.13%	0.61%	2.48%	3.81%	3.09%
BONDS					
FTSE Canada Universe Bond Index	2.24%	2.01%	3.46%	4.42%	0.80%
FTSE Canada Short Term Overall Bond Index	1.45%	1.19%	3.12%	5.02%	2.25%
Eterna Adapted Private Wealth Index[1]	2.32%	1.48%	3.50%	5.06%	1.87%
FTSE Canada Mid Term Overall Bond Index	2.32%	1.91%	4.05%	5.09%	1.25%
FTSE Canada Long Term Overall Bond Index	3.41%	3.44%	3.23%	2.63%	-1.68%
NORTH AMERICAN STOCK MARKETS					
Canada - S&P/TSX Composite	11.17%	6.96%	32.87%	23.48%	14.85%
United States - Standard & Poor's 500	14.12%	17.46%	27.55%	23.52%	16.52%
United States - Dow Jones Industrial Average	13.65%	15.60%	25.80%	19.92%	13.82%
INTERNATIONAL STOCK MARKETS					
United Kingdom - FTSE-100	9.75%	6.36%	24.57%	20.21%	14.52%
France - CAC-40	3.85%	8.41%	10.92%	8.44%	7.33%
Germany - DAX	2.87%	11.13%	5.77%	20.23%	12.16%
Japan – Nikkei-225	38.88%	36.71%	60.00%	26.24%	13.74%
Hong Kong – Hang Seng	-8.25%	-5.91%	-0.80%	9.08%	-2.09%
Australia - S&P/ASX 200	8.07%	5.94%	12.68%	10.70%	4.85%
CURRENCIES					
USD versus CAD	3.44%	2.01%	4.32%	2.35%	2.75%

SOURCE: Bloomberg. NOTES: Returns over 3-year and 5-year periods are annualized.

[1] The Eterna Adapted Private Wealth Index is made up of 60% of FTSE Canada Short Term Overall Bond Index and of 40% of FTSE Canada Mid Term Overall Bond Index.