OPTIMUM
Asset Management

Financial Outlook
June 2023

By Martin Delage, Canadian Chief Investment Officer

A summer break?

The first-quarter trend continued in the second quarter of 2023, with positive returns in most of the markets we track (see table). The economy, supported by spending on services, continued to be very resilient. That being said, inflation is still too high and is forcing central banks to raise their key rates. The rate hikes will eventually undermine economic growth, despite all the savings accumulated by households during the pandemic. Therefore, we think prudent portfolio management is increasingly important, in light of current and future market conditions.

In this issue, you'll find our views on the economy and also what we do on a daily basis to ensure sound management of our clients' portfolios while controlling risks and optimizing returns.

Don't hesitate to contact our team if you have any questions or want to know more about the Optimum offering.

Monthly Returns on Financial Markets

	January 2023	February 2023	March 2023	April 2023	May 2023	June 2023	Second quarter 2023
Money market	0.37%	0.33%	0.41%	0.31%	0.35%	0.34%	1.00%
Canadian bonds	3.09%	-1.99%	2.16%	0.98%	-1.69%	0.04%	-0.69%
International bonds (CAD)	1.71%	-1.36%	2.55%	0.66%	-1.74%	-2.66%	-3.72%
S&P/TSX TR	7.41%	-2.45%	-0.22%	2.90%	-4.95%	3.35%	1.10%
S&P 500 (CAD)	4.67%	-0.46%	3.05%	1.78%	0.66%	3.78%	6.32%
MSCI World (CAD)	5.45%	-0.42%	2.48%	1.97%	-0.78%	3.24%	4.45%
MSCI EAFE (CAD)	6.45%	-0.10%	1.87%	3.05%	-4.02%	1.78%	0.66%
MSCI Europe (CAD)	7.02%	1.40%	1.76%	4.38%	-5.66%	2.01%	0.45%
MSCI Pacific (CAD)	5.45%	-2.71%	2.01%	0.52%	-0.53%	1.27%	1.25%
MSCI Emerging Markets (CAD)	6.26%	-4.58%	2.42%	-0.92%	-1.46%	1.05%	-1.35%
CAD/USD	1.86%	-2.49%	0.96%	-0.26%	-0.16%	2.51%	2.08%

Source: Bloomberg

New monthly economic video on YouTube
Stay abreast of the economy and financial markets: Watch our videos by **clicking on this link** *(French only)*.

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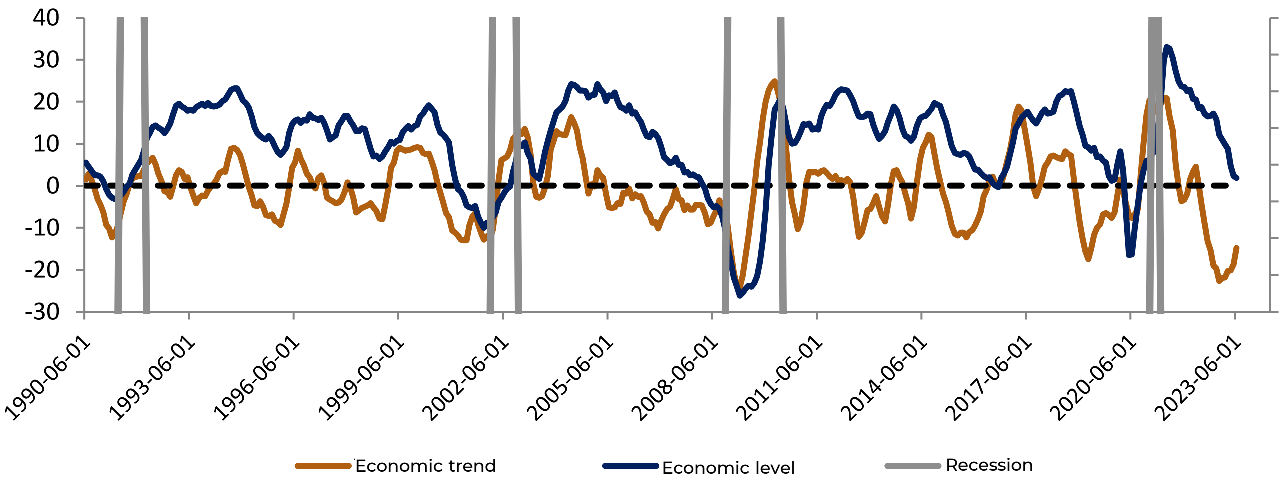
Economy

By Hugues Sauvé, FVP, Fixed Income and
Executive Assistant to the Canadian Investment Officer

During the quarter, investors realized that abundant savings and numerous job opportunities had rendered consumers surprisingly immune to rising interest rates. As a result, growth forecasts were revised upward (U.S. real GDP for 2023 from 0.4% to 1.3%), and the forecast recession was postponed until 2024. Amid this optimism, some segments of the equity markets advanced strongly, such as the technology and luxury sectors, and credit spreads outperformed. As for interest rates, the higher-for-longer concept took hold and pushed yields up (the 10-year Canada bond yield rose 0.44% to 3.27%, and the U.S. 10-year added 0.45% to reach 3.84%), while taking the inversion of the yield curve to extremes.

We are still of the view that a recession, although delayed, will indeed occur. As shown by the Optimum indicators (see graph), the economic level (blue line) continues to decline and is approaching neutral, but our economic trend indicator remains in strongly negative territory.

Optimum Indicators



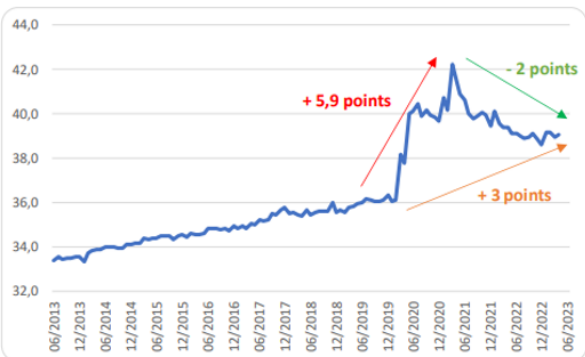
Source: Bloomberg, Optimum Asset Management

The pandemic caused great distortions in the economy, making it more difficult to interpret the data. A case in point is the breakdown of consumption between goods and services (see graph next page). As a result, we are being cautious about the current strength in demand for services; it could be a catch-up phenomenon that fades in the coming months.

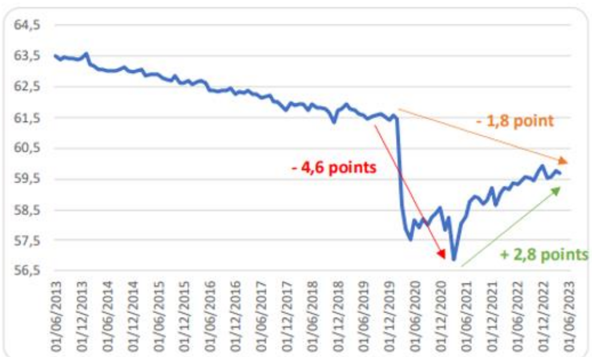
Economy (cont'd)

By Hugues Sauvé, FVP, Fixed Income and
Executive Assistant to the Canadian Investment Officer

Weight of Goods – U.S. (% GDP)



Weight of Services – U.S. (% GDP)



Source: BEA, In constant $B volume

In Canada, the central bank surprised the financial markets with a 0.25% rate hike at its June meeting. It acknowledged that economic weakness was spreading globally but pointed out that its focus was on restoring price stability. We note that its commentary on interest rates paved the way to coordinated action by the U.S. Federal Reserve and the European Central Bank.

Over the longer term, the current underinvestment in the commodity sector bodes well for a commodity-based economy such as Canada's. In addition, the transition to a greener economy will promote intensive use of commodities. For example, demand for electric vehicles in China is just beginning and is already significantly boosting demand for commodities, including copper.

In the United States, we witnessed yet another episode of the debt-ceiling drama. The idea of creating a trillion-dollar coin, based on the Treasury's exceptional ability to issue currency and originally conceived for the minting of platinum collector coins, resurfaced before politicians reached an agreement. In addition, the regional banking crisis eased, and the housing market rebounded slightly. These positive developments prompted the Federal Reserve to leave rates unchanged (they are currently in the 5.0%-to-5.25% range) at its June 14 meeting; even so, it said that two hikes could occur by the end of 2023, for a range of 5.5% to 5.75%. Even though it is true that finding the right balance between employment and inflation is complex, we are puzzled by this decision.

As for the international arena, Europe's economic growth is virtually stagnant. Meanwhile, China appears to have fallen into a liquidity trap; consumers, who are reeling from declining house prices, have lost confidence and are accumulating savings instead of spending, despite favourable financing conditions.

Bond Market

By Hugues Sauvé, FVP, Fixed Income and
Executive Assistant to the Canadian Investment Officer

Returns on FTSE Russell Indexes/ Second Quarter 2023 (%)

Maturity	Federal	Provincial	Municipal	Corporate	Total
Short	-1.07	-1.09	-1.08	-0.26	-0.80
Medium	-2.42	-1.84	-1.86	-0.84	-1.93
Long	-0.77	0.66	0.58	1.93	0.64
Universe	-1.48	-0.45	-0.51	0.18	-0.69

Source: FTSE Russell

When it comes to our Canadian bond strategy, all four of our pillars are signalling lower rates. First, the economic fundamentals continue to deteriorate. Second, recent events in the market have taken yields back to the upper end of their trading range. Third, the sentiment signal is strong, with market participants holding significant positions. Fourth, seasonality generally favours bonds during the summer.

We are therefore using the long interest rate bias as a hedge to our credit overweight and yield-curve positioning. This portfolio structure has improved our carry this year, stabilized our return and outperformed the benchmark. Real return bonds remain a good option for betting on inflation because their break-even point is below the Bank of Canada's target, the U.S. equivalent and real inflation.

As for credit spreads, they are trading in the middle of their long-term range. We therefore opted for an overweight in credit to take advantage of the higher return. Even so, we chose quality securities to ensure leeway in the next economic downturn.

Finally, the recent decline in preferred share prices makes this asset class very attractive, given its high yield and favourable tax treatment.

Asset Management

Equities

By Nicolas Poirier, Director, Equities

Recession fears related to the impact of interest rate hikes on the economy eased during the quarter. The decline in the inflation rate prompted the U.S. Federal Reserve to pause in June for the first time in 11 meetings.

Even though the global stock markets performed strongly in the quarter, rising interest rates make short-term bonds attractive, especially at the end of the economic cycle.

As a result, our balanced strategies took advantage of the equity market's solid performance to crystallize some gains. We also decreased our overweight in Canadian equities and increased the weight of short-term bonds for these strategies.

STRATEGY UPDATES - EQUITIES

	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	7 yrs	10 yrs
Low Volatility Canadian Equity	3.30	1.90	3.11	8.43	9.65	9.32	7.95	9.34
Value Added	**-2.39**	**-9.00**	**0.03**	**-4.33**	**0.90**	**1.88**	**-0.51**	**1.05**
Canadian Equity Multifactor	5.69	9.04	4.26	14.02	10.65	9.20	8.64	-
Value Added	**0.00**	**-1.85**	**1.18**	**1.26**	**1.90**	**1.77**	**0.17**	**-**
Canadian Equity	7.40	15.55	3.78	12.65	9.15	8.25	8.72	7.95
Value Added	**1.72**	**4.66**	**0.70**	**-0.10**	**0.39**	**0.81**	**0.26**	**-0.34**
MSCI Canada IMI	5.69	10.89	3.08	12.75	8.75	7.44	8.46	8.29
Global Equity	13.50	26.21	4.04	10.24	9.22	8.36	10.19	11.51
MSCI World Net (CAD)	12.40	21.57	4.15	11.10	10.11	9.20	10.91	12.01
Value Added	**1.11**	**4.64**	**-0.12**	**-0.86**	**-0.89**	**-0.84**	**-0.72**	**-0.51**

The performance shown is in Canadian dollars, before management fees and is annualized for all periods over one year. This information is presented for information purposes only. Past performance is not indicative of future performance.

Please read the disclaimer provided at the end of this document.

Equities (cont'd)

By Nicolas Poirier, Director, Equities

Optimum Global Equity Fund

In the second quarter, global equities performed well despite concerns that interest rate hikes would dampen consumer spending. Given the market's enthusiasm for artificial intelligence (AI) stocks, our overweight in the technology sector contributed positively to the Fund's performance.

In addition, the Fund benefited from an underweight in the energy and materials sectors, which posted the quarter's worst performances. Their decline was due to lower crude-oil and base-metal prices.

Optimum Canadian Equity Fund

The second quarter was challenging for the Canadian equity indexes, which underperformed their global counterparts. The weak performance was caused mainly by the strong weighting of natural resources stocks, which were affected by declining prices for crude oil and base metals. The financial sector, which also represents a large portion of the Canadian index, suffered the same fate, as a result of interest rate hikes.

Finally, our overweight in the technology sector performed especially well in the second quarter and had a positive impact on the Fund's performance.

Optimum Low Volatility Canadian Equity Fund

The second quarter was challenging for the Canadian equity indexes, which underperformed their global counterparts. In June, higher interest rates had an adverse impact on the utilities sector. The Fund's overweight in this sector had a negative impact on its return.

We think an environment where interest rates continue to rise could have an adverse impact on the Fund's performance.

Optimum Canadian Equity Multifactor Strategy

In the second quarter, the poor performance of the natural resources sector caused by falling base-metal and crude-oil prices detracted from the Canadian market's return. Technology was the best-performing sector in the index, in contrast to materials.

Of the three components of this strategy, the equally weighted component stood out in the second quarter. The small-cap stocks in this component performed well. As for the other two components (low volatility and momentum), rising rates had an unfavourable impact on a number of securities, which detracted from their performance.

Asset Management

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WHO ARE WE?

Optimum Asset Management is an asset management subsidiary held by the Optimum Financial Group, a private Canadian group with international operations.

With a wide range of traditional, alternative and innovative solutions, Optimum Asset Management manages assets for institutional and private wealth management clients. We redefine investment strategies by combining the high technicality of our experts with our business intelligence technology, while incorporating responsible investment principles into our portfolio management.

Each strategy's performance derives from a composition of mandates which regroup the returns of several client portfolios with similar mandates and investment strategies. The performance is shown in Canadian dollars, before management fees and is annualized for all periods over one year. The information contained in the present document is provided for information purposes only and should not be construed as investment advice pertaining to your financial situation nor as specific advice relating to finance, legal, accounting, tax or investments. We assume no responsibility for any losses incurred due to the use of this data. It should not be considered as a solicitation to buy nor an offer to sell a security. It does not take into account an investor's specific investment objectives, tax situation nor investment horizon. There is no representation, warranty nor liability regarding the accuracy of decisions based on this data. All performance-based data factor in the reinvestment of all distributions or dividends and do not take into account management fees and other fees payable by investors which result in reduced returns. The indexes used in the present document are indexes which are widely recognized benchmarks used to measure investment performance for their respective asset classes and were chosen based on their degree of comparability and similarity with the investment strategies presented. Optimum Asset Management Inc. cannot guarantee future performance of strategies. Values fluctuate frequently and past performance is not indicative of future performance.

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