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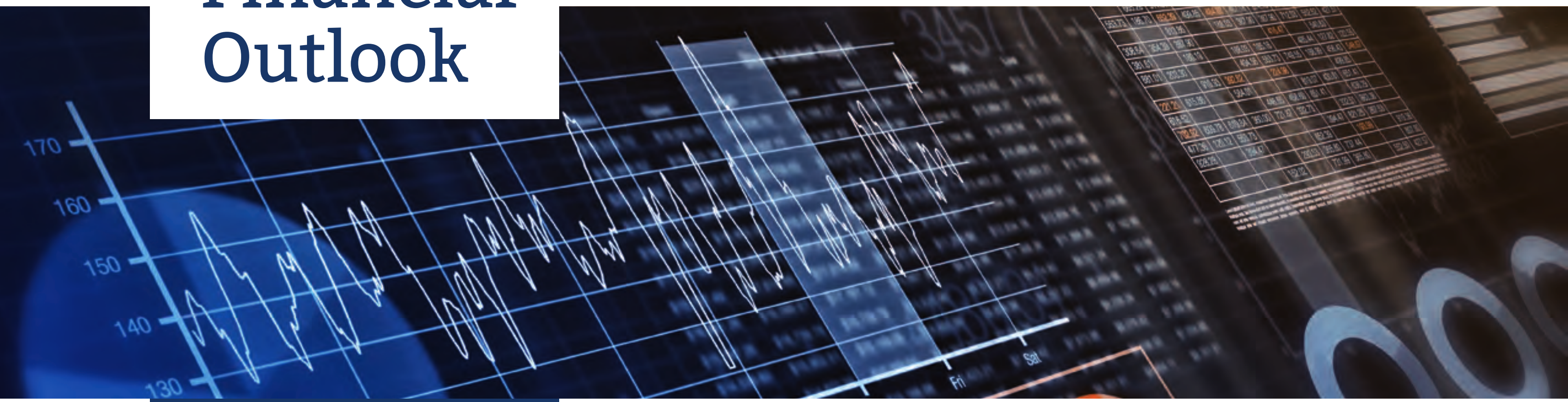
Asset Management

Financial Outlook



July 2021

Summary

At a Glance

- The central banks changed their message and are now considering raising interest rates sooner than expected, a development that affected the bond market.
- The FTSE Canada Universe Bond Index returned 1.66% in the second quarter after a negative return of -5.04% in the first 3 months of 2021.
- In Canada, the S&P/TSX Index continued its first-quarter momentum, advancing 8.60% in the second quarter for a year-to-date return of 15.67%.
- In the United States, the S&P 500 Index reached a new peak in the second quarter with a return of 4.75% (CAD).
- The MSCI World Index also advanced in the second quarter, with a gain of 3.51% (CAD).

The *Financial Outlook* is available on line at www.optimumasset.com

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We would be pleased to send it to you personally.

Economy

By Pierre-Philippe Ste-Marie, Co-Chief Investment Officer

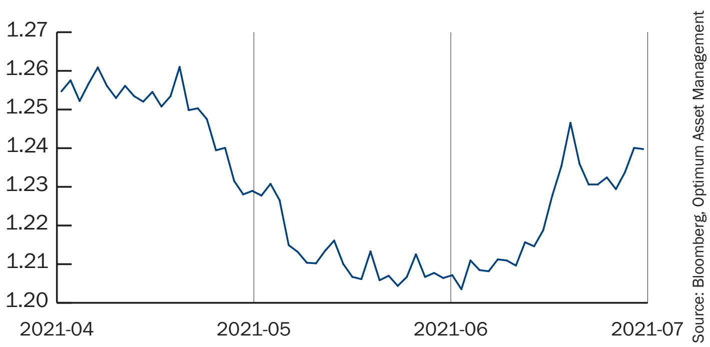
and by Martin Delage, Co-Chief Investment Officer

With summer arriving in the northern hemisphere and vaccination rates rising in the developed countries, the economy is coming back to life. Consumers who restricted their spending in the past year seemed to have loosen their purse strings, as we have seen from the significant increases in the price of goods such as lumber.

In the second quarter, the central banks changed their message on interest rate hikes, which generated a rapid reaction from bond market participants.

As for the Canadian dollar, it strengthened against the U.S. dollar in the first half of the quarter with the improved outlook for economic growth. After the U.S. Federal Reserve's announcement, however, the loonie fell back almost to its level at the start of the quarter (see chart below).

CAD-to-USD Exchange Rate



In our last quarterly letter, we said that the challenge for the financial markets in the second quarter would be to balance strong demand growth due to the rebound with price pressures caused by supply bottlenecks and the continuation of fiscal measures. In this regard, we believe that finding this balance will remain a focus for the year as a whole.

Canada

The Covid-19 pandemic continued to affect the Canadian economy. According to the most recent data available, for April, the Canadian economy shrank slightly (-0.3%). Even so, as we forecast in our previous letter, the economy is expected to record positive growth for the first half and to expand by more than 4% in 2021.

The residential real estate sector continues to be a driver of economic growth, currently accounting for more than 10% of GDP. This outsized role is not sustainable in the long run, which could result in a slowing of growth. Even so, other sectors, including energy, could pick up the slack, with the easing of health measures planned for the coming months.

In its June press release, the Bank of Canada said it would hold the target for the overnight rate at 0.25% until the excess capacity in the economy was absorbed. The message was unchanged, but the timing of the rate hikes was changed to the second half of 2022.

United States

Since the start of the year, the U.S. economy has recorded significant growth, which is still being supported by very accommodative monetary and fiscal policies.

These policies have a direct effect on the economy and therefore on the value of financial assets. What will happen when the measures are reduced or withdrawn?

Inflation is currently the highest it has been since 1990. The market isn't very concerned about the level of inflation but is instead focusing on whether the Federal Reserve will consider the situation transitory and refrain from taking action to control it, or whether it will prove strong enough to force the Fed to tighten.

The bond market's response to prospect of tightening a little earlier than expected was a flattening of the Treasury yield curve along with a decline in the yields of bonds maturing in 10 years or more.

The Federal Reserve's new concerns about inflation, however low, was enough to force some market participants to buy back short positions on long bonds and to sell shorter maturities. In a market where the Federal Reserve still buys $80 billion of Treasuries a month, it does not take much to push prices up and yields down.

It seems reasonable to assume that yields will not change significantly until the Fed starts tapering its purchases in the bond market.

The market consensus seems to favour a return to low growth accompanied by low inflation once the pandemic-related rebound ends. This prospect is clearly reflected in current market expectations.

Bond Markets

By Hugues Sauvé, Vice President, Investments

FTSE Russell Index Performance/Second Quarter 2021 (%)

	Federal	Provincial	Municipal	Corporate	Total
Short	-0.04	0.17	0.23	0.18	0.07
Mid	1.45	1.76	1.54	1.55	1.60
Long	3.14	4.22	3.72	2.86	3.73
Universe	0.81	2.68	2.20	1.28	1.66

Source: FTSE Russell

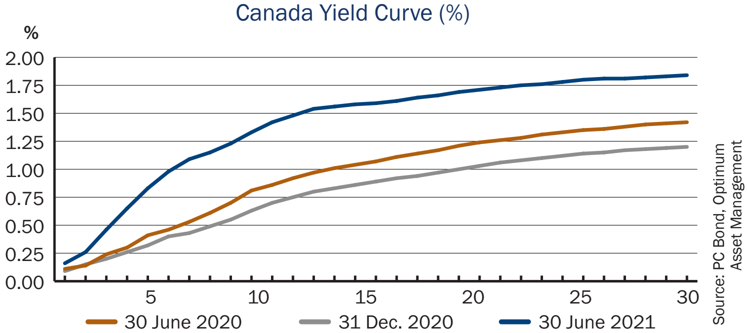
The second quarter was more favourable to bonds than was the first quarter. All maturities had a positive return during the quarter, even though the returns are still negative for the first 6 months of the year, with the FTSE Canada Universe Index returning -3.46%.

Canada's Federal Yield Curve

Canada's federal yield curve flattened slightly during the quarter after various central bank press releases raised expectations of rate hikes.

The main changes in the yield curve since the start of the year come from the longer-term segment (namely 10 to 30 years), which has risen significantly, as shown in the chart below, while the yields of shorter-term (2-year) notes rose much more modestly.

Canada Yield Curve (%)



Credit

In contrast, Canadian credit spreads were practically unchanged during the quarter, with the movements determined mainly by credit type and bond maturity. This context confirms the relevance of more active management of the different bond types and maturities to generate value in this type of market.

Quebec Spreads - Canada (b.p.)

Maturity	March 2021	April 2021	May 2021	June 2021
5 years	30	24	22	23
10 years	67	64	63	62
30 years	79	74	72	76

Source: FTSE Russell

Corporate Spreads - Canada (b.p.)

Maturity	March 2021	April 2021	May 2021	June 2021
5 years	68	68	69	68
10 years	97	97	95	97
30 years	158	160	161	158

Source: FTSE Russell

STRATEGY

We continue to focus on the credit quality of our portfolios. As a result of the flattening of the yield curve and our expectations of the markets, we have tactically changed our positioning so that we are less centred on the curve and can take advantage of its fluctuations. We will also take a more tactical approach to managing yield fluctuations in order to benefit from the market's volatility.

As for our Optimum Public Markets and Optimum Private Markets income strategies, they outperformed significantly in the first half of 2021, far exceeding the more traditional bond markets. Their performance is due mainly to our allocation to preferred shares. It will be recalled that this asset class is one of our high-conviction investments. In recent years, we have developed special expertise in preferred shares that has benefited our clients.

As for private debt, in the second quarter we invested in the Sagard private credit fund, a recognized Canadian investment vehicle.

Equities

By Martin Delage, Co-Chief Investment Officer

The Canadian stock market continued the advance that began slightly more than a year ago, rising 7.8% in the second quarter and 15.7% on a year-to-date basis.

The Information Technology and Energy sectors had the largest advances for the quarter at 23.0% and 12.6%, respectively. Since the start of the year, all sectors have risen with the exception of the Materials sector, which is still down by 1.2% despite an excellent return in the second quarter.

The global markets also recorded a positive performance in the second quarter. The MSCI World Index was up 7.1% in U.S. dollars on the quarter, bringing its year-to-date gains to 13.3%. The S&P 500 Index also rose strongly, returning 8.2% on the quarter and 14.4% since the start of the year.

The European markets were not to be outdone, with most of them recording gains in the second quarter.

S&P TSX	Sector Returns	
	2nd quarter	YTD
Energy	12.6%	33.7%
Health Care	-11.7%	21.7%
Information Technology	23.0%	21.6%
Financials	7.4%	21.1%
Real Estate	9.9%	19.7%
Consumer Discretionary	4.1%	16.6%
Communication Services	9.1%	15.4%
Consumer Staples	5.5%	7.8%
Industrials	-0.1%	6.1%
Utilities	0.5%	2.9%
Materials	6.5%	-1.2%
S&P/TSX Index	7.8%	15.7%

Source: Bloomberg, Optimum Asset Management

International Stock Indexes	As of June 30, 2021 2nd quarter	
	in U.S. dollars	YTD
MSCI World	7.1%	13.3%
United States		
S&P 500	8.2%	14.4%
MSCI EAFE	4.4%	7.3%
MSCI Europe	7.6%	12.3%
Great Britain	2.4%	11.9%
Germany	1.2%	8.1%
Spain	-0.9%	5.1%
France	1.6%	12.2%
Italy	2.4%	8.7%
Switzerland	8.2%	8.7%
MSCI Pacific	2.6%	5.1%
Japan	1.1%	0.4%
Hong Kong	-1.2%	8.7%
Australia	0.9%	8.2%
Emerging Markets	3.2%	7.0%

Source: MSCI, Bloomberg, Optimum Asset Management

STRATEGY

Even though the corporate earnings forecasts for the second quarter look positive, we think the current valuations have already priced in the expectations. As a result, we are maintaining a prudent approach to the management of our equity portfolios. We will continue to focus on our strategy of investing in companies that meet our financial strength requirements in order to generate a long-term return with the portfolios.

Our Canadian Equity Fund, which is geared to preservation of capital in down markets, has no exposure to the energy and gold sectors. It will be recalled that these sectors, which do not fit into our investment philosophy, performed well in the first half of 2021 after a much more difficult 2020.

As for our Global Equity Pooled Fund, it had a solid quarter with our selection of quality companies in Europe and the United States.

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WHO WE ARE?

Combined, our asset management subsidiaries manage $8.2 billion Canadian dollars globally for an institutional and private wealth clientele. These subsidiaries are held by Optimum Group, which employs more than 615 employees across Canada, the United States and in France.

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.
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