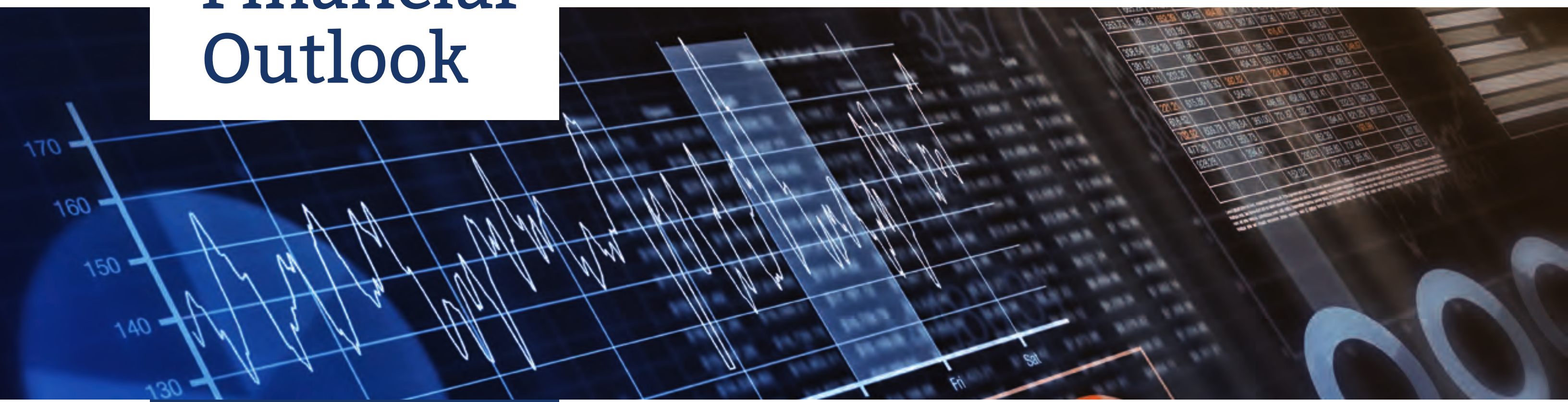
OPTIMUM®
Asset Management

Financial Outlook



October 2021

Summary

At a Glance

- Employment in Canada rose in August for the third consecutive month and now stands at 156,000 fewer jobs (-0.8%) below the pre-pandemic level in February 2020. As a result, the unemployment rate was 7.1%, the lowest since the start of the pandemic.
- Energy prices fluctuated significantly during the quarter, with Brent crude oil ranging from US$65 to US$80 a barrel.
- Despite a strong performance from the Canadian economy, the loonie depreciated throughout the period to end at 1.27 as at September 30.
- The FTSE Canada Universe Bond Index returned -0.51% in the third quarter versus 1.66% in the second quarter.
- In Canada, the S&P/TSX Index ended the quarter at levels similar to June 30. Even so, volatility featured prominently during the quarter. The index advanced 0.20% during the quarter for a year-to-date return of 17.5%.
- In the United States, the S&P 500 Index also experienced high volatility but reached a new peak in early September. Even so, the index then retreated, finishing slightly higher than at the start of the quarter (+0.6%).

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

If you would like to receive our *Financial Outlook* bulletin by e-mail, please write to us at the following address: info@optimumgestion.com

We would be pleased to send it to you personally.

PRI Principles for Responsible Investment

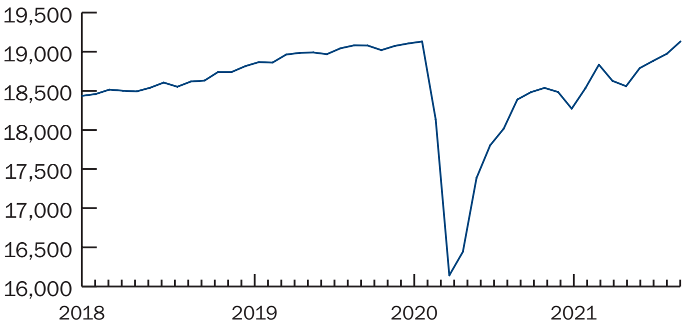
Economy

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

and by Martin Delage, Co-Chief Investment Officer

The Canadian economy continued to grow in the third quarter of 2021, with the level of employment almost returning to pre-pandemic levels.

Labour Force in Canada



Source: Labour Force Survey (3701), table 14-10-0287-01

These employment levels are good news for the economy in general and could put upward pressure on wages. To contain a rise in consumer prices, which would exacerbate inflation, businesses will have to find ways to improve their productivity.

In addition to wage pressures, input costs have also risen since the start of the year. Owing to these factors, we see inflationary pressures potentially persisting longer than was expected earlier in the year.

As for the loonie, it fell against the U.S. dollar during the quarter, as the greenback rose against the safe haven currencies.

Canada

The Canadian economy lost ground in the second quarter. According to our analyses, its 0.3% contraction was due mainly to weakness in the real estate market and a decrease in exports. Global supply-chain disruptions have had a significant impact on a number of sectors, including the automotive industry, which caused Canada's exports to fall by 4%.

In its September press release, the Bank of Canada did not change its forecast, even though the economy contracted in the second quarter. It still plans to keep its key interest rate at the current level (0.25%) until the economy's excess capacity is absorbed, which it expects to occur in the second half of 2022.

United States

The U.S. economy continued to gain momentum and recorded impressive growth. The second-quarter data showed annual growth of 6.7%, which slightly exceeded the forecasts. According to the Bureau of Economic Analysis, those sectors that contributed the most to the increase were the accommodation and food services sector, the information and culture sector, and the professional, scientific and technical services sector.

This strong economic growth led to significant job creation, which has translated into a drop in the U.S. unemployment rate over the past year. According to the latest available statistics (August 2021), it was 5.2% versus 8.2% a year earlier and 3.5% before the pandemic.

As we stated in our previous Financial Outlook, we do not expect significant changes in fixed income yields until the U.S. Federal Reserve (Fed) tapers its bond purchases. Toward the end of the third quarter, the Fed hinted that it could start reducing its purchases of financial assets in the market and also raised its interest rate forecast. These statements were enough to erase the U.S. bond market's drop in yields during the quarter, taking the 10-year Treasury yield back up to nearly 1.50%.

Bond Markets

By Hugues Sauvé, Vice President, Investments

FTSE Russell Indexes Performance/Third Quarter 2021 (%)

	Federal	Provincial	Municipal	Corporate	Total
Short	-0.02	0.09	0.12	0.22	0.08
Mid	-0.23	0.00	0.03	0.25	-0.01
Long	-2.10	-1.72	-1.26	-0.99	-1.61
Universe	-0.43	-0.84	-0.54	-0.13	-0.51

Source: FTSE Russell

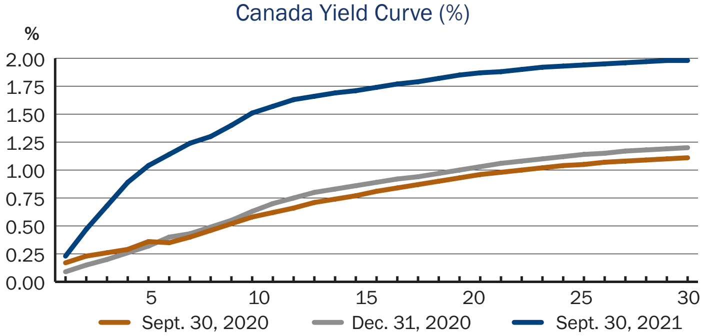
As with the U.S. market, September was a difficult month for the Canadian bond market, causing it to end the third quarter in negative territory. With the exception of short-term bonds, all maturities had a negative return on the quarter. Thus, year to date, bonds are still in the red, with the FTSE Canada Universe Index returning -3.95%.

Federal Yield Curve in Canada

The slope of the Canadian federal bond yield curve steepened during the quarter, reflecting market's new expectations of rate hikes.

As can be seen from the chart below, the yields for all maturities on the curve increased. This had a negative impact on the performance of the Canadian bond market.

Canada Yield Curve (%)



Source: PC Bond, Optimum Asset Management

Credit

Once again, Canadian credit spreads were fairly stable during the quarter. The opportunities to generate returns therefore came mainly from security and sector selection, confirming the relevance of more active management of the different bond types and maturities to generate value in such a market.

Quebec Spreads - Canada (b.p.)

Maturity	June 2021	July 2021	August 2021	September 2021
5 years	23	23	31	28
10 years	62	62	57	56
30 years	76	76	81	77

Source: FTSE Russell

Corporate Spreads - Canada (b.p.)

Maturity	June 2021	July 2021	August 2021	September 2021
5 years	68	68	69	65
10 years	97	97	101	97
30 years	158	158	159	157

Source: FTSE Russell

STRATEGY

Even though our baseline scenario remained rather constructive, we positioned the strategy to achieve a slightly shorter bias in terms of yields and we focused the portfolio more on the centre of the curve. This will help deal with the more persistent risk of inflation, as well as the risk that central banks will become more aggressive. In the same vein, at the credit level, we aimed to increase the portfolio's quality and liquidity by trying to reduce our "carry" to a minimum.

As for the preferred share strategies offered in some of our pooled funds or as part of our segregated mandates, they remained attractive despite the growth recorded in the past year. This asset class provides an attractive current yield and protects it in a market where bond yields are rising. As a reminder, this asset class is one of our high-conviction investments. In recent years, the special expertise we have developed in preferred shares has proved beneficial for our clients.

Equities

By Martin Delage, Co-Chief Investment Officer

Canada's stock market stalled in the third quarter, recording a slight gain of 0.2% and bringing the year-to-date return to 17.5%.

Health Care and Consumer Discretionary were the sectors most affected in the third quarter, with declines of 19.4% and 6.5%, respectively. That being said, with the exception of Health Care and Materials, all sectors were up on a year-to-date basis.

S&P TSX	Sector Returns	
	3rd quarter	YTD
Energy	2.8%	40.9%
Health Care	-19.4%	-1.7%
Information Technology	-2.3%	20.1%
Financials	1.1%	24.8%
Real Estate	3.3%	25.8%
Consumer Discretionary	-6.5%	9.9%
Communication Services	0.7%	19.0%
Consumer Staples	4.6%	13.5%
Industrials	3.9%	11.0%
Utilities	1.0%	6.0%
Materials	-5.6%	-6.0%
S&P/TSX Index	0.2%	17.5%

Source: Bloomberg, Optimum Asset Management

Global markets also posted positive performances in the third quarter. The MSCI World Index was up 2.3% in Canadian dollars on the quarter, bringing its year-to-date gain to 12.4%. As for the S&P 500, it saw a much more modest rise of 0.6% during the quarter for a return of 15.9% since the start of the year.

The discordant note in the global market came from emerging markets, which struggled in the third quarter. The difficulties encountered by some major real estate players, including Evergrande, coupled with China's economic slowdown, dragged the MSCI Emerging Markets Index down by 6% during the quarter, erasing all of the year's gains.

As at September 30, 2021		
Returns by Country (in CAD)	Quarter	YTD
France	0.1%	10.8%
Germany	-2.2%	3.2%
Italy	1.1%	7.7%
Spain	-1.2%	2.1%
Switzerland	-1.1%	4.8%
Great Britain	2.0%	11.6%
Hong Kong	-7.4%	-1.0%
Japan	7.0%	5.3%

As at September 30, 2021		
Market	Quarter	YTD
S&P 500 (US$)	0.1%	10.8%
NASDAQ (US$)	-2.2%	3.2%
MSCI EAFE (CAD$)	1.1%	7.7%
MSCI WORLD (CAD$)	-1.2%	2.1%
MSCI EMERGING (CAD$)	-1.1%	4.8%

Source: MSCI, Bloomberg, Optimum Asset Management

STRATEGY

Our defensive approach to Canadian equities ensures that our portfolios lag the benchmark. For example, the energy sector, which has performed best in 2021 with a gain of more than 40%, is almost absent from our equity portfolios. This decision not to have significant exposure in this sector is based, among other things, on our desire to offer equity strategies with the lowest carbon footprint, because we are convinced that this type of portfolio will outperform the benchmark over a long period.

We remain true to our strategy of focusing on companies that meet our financial strength requirements in order to generate long-term returns on the portfolios.

In global equities, we believe the decline in emerging markets will generate buying opportunities and we plan to increase our allocation to these markets. As we do not expect to change our weightings of U.S. and European equities, additions to our investments in emerging markets will be offset by a reduced allocation to Canadian equities.

Our Team

INSTITUTIONAL MANAGEMENT

Brigitte Gascon, MBA, B.Sc.
Senior Vice President,
Operations and Development
Telephone: 514 288-7545, ext. 594
bgascon@optimumasset.com

Patrick Beaudoin, CFA, Adm.A.
Senior Director,
Institutional Market
Telephone: 514 288-7545, ext. 683
pbeaudoin@optimumasset.com

PRIVATE WEALTH MANAGEMENT

Sylvain B. Tremblay, B.A.A., F.Pl.
Vice President,
Private Wealth Management
Telephone: 514 288-7545, ext. 614
sbtremblay@optimumasset.com

Éric G. Ouellet, B.A.A., F.Pl.
Vice President,
Private Wealth Management
Telephone: 514 288-7545, ext. 630
eouellet@optimumasset.com

Filippo De Bonis, CIM, F.Pl.
Director,
Private Wealth Management
Telephone: 514 288-7545, ext. 618
fdebonis@optimumasset.com

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.
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.

OPTIMUM ASSET MANAGEMENT INC.

425 De Maisonneuve W. blvd, Suite 1620
Montréal (Québec) H3A 3G5, CANADA
+1 514 288-7545
+1 888 678-4686
info@optimumgestion.com

80 Bloor Street W., Suite 1500
Toronto (Ontario) Canada M5S 2V1
+1 416 922-5000

PRI Principles for Responsible Investment

optimumasset.com
optimumasset.com/LinkedIn

OPTIMUM