OPTIMUM®
Asset Management

Financial Outlook March 2023

By Martin Delage, Canadian Chief Investment Officer

The Calm before the Storm?

The first quarter of the year saw a rebound in relation to 2022, with positive returns on all the markets we track (see table). The returns on these markets, especially the stock market, are often extrapolated to the year as a whole. Even so, nothing fundamentally changed in the economy or the markets to justify such a performance. The war in Ukraine entered its second year, China was as aggressive as ever toward Taiwan and inflation eased but remained above central bank targets.

Will the first-quarter improvement continue or is it only the calm before we enter stormy seas? In this Financial Outlook, we explain our perspective on the economy as well as what we do on a daily basis to ensure sound management of our clients' portfolios by controlling risks while optimizing returns.

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

Monthly Returns on Financial Markets

	January 2023	February 2023	March 2023	First quarter 2023
Money market	0.37%	0.33%	0.41%	1.12%
Canadian bonds	3.09%	-1.99%	2.16%	3.22%
International bonds (CAD)	1.71%	-1.36%	2.55%	2.89%
S&P/TSX TR	7.41%	-2.45%	-0.22%	4.55%
S&P 500 (CAD)	4.67%	-0.46%	3.05%	7.37%
MSCI World (CAD)	5.45%	-0.42%	2.48%	7.60%
EAFE (CAD)	6.45%	-0.10%	1.87%	8.34%
MSCI Europe (CAD)	7.02%	1.40%	1.76%	10.43%
MSCI Pacific (CAD)	5.45%	-2.71%	2.01%	4.66%
MSCI Emerging Markets (CAD)	6.26%	-4.58%	2.42%	3.83%
CAD/USD	1.86%	-2.49%	0.96%	0.27%

Source: Bloomberg

Economy

By Martin Delage, Canadian Chief Investment Officer

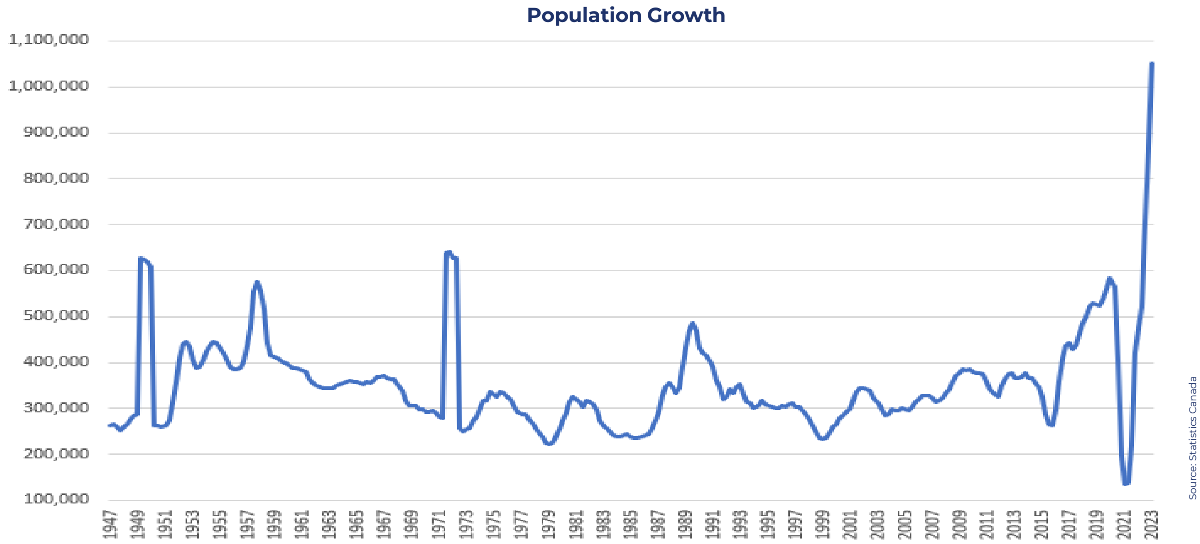
The start of the year saw particularly strong economic momentum in the United States, but it culminated in a major crisis in the financial system. Interest rates initially rose but were down at the end of the quarter, as corporate credit spreads widened and commodity prices fell. Even so, the stock market continued to perform well as a result of investors' belief in a soft landing.

In the United States, SVB Financial Group collapsed as a result of inadequate management of its interest rate exposure, which led to surging withdrawals by its customers, mainly technology companies that accounted for 94% of its uninsured deposits. To reduce the risk of contagion to all regional banks, the U.S. Federal Reserve set up the Bank Term Funding Program to ensure an appropriate distribution of liquidity within the banking system

These events will have negative effects on growth because deposit rates are likely to rise and lending standards will be tightened for small businesses and the commercial real estate sector. Consumer confidence could also be undermined, which would exacerbate the impact on economic growth.

In Canada, despite a tight real estate market and high debt levels, the banking sector remained strong and was not affected by foreign contagion. Even so, we think the Canadian economy will be drawn into a slowdown similar to that in the United States because of their interconnectivity.

In estimating Canada's future economic growth, we see Canada's demographics as a key factor. Even though the country is experiencing strong population growth because of international immigration (see table), we think the positive effects of such growth will be mitigated by the Canadian economy's lower productivity, caused partially by its failure to use new manufacturing technologies.



Bond Market

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

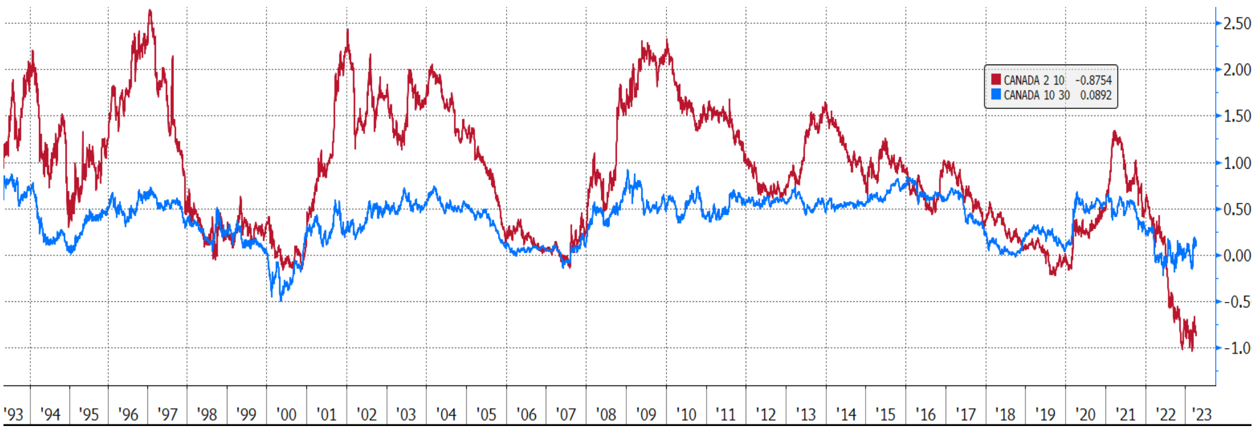
Returns on FTSE Russell Indexes/ First Quarter 2023 (%)

	Federal	Provincial	Municipal	Corporate	Total
Short	1.69	1.89	1.97	1.95	1.82
Medium	4.02	3.89	3.93	3.35	3.85
Long	5.56	4.64	4.98	4.16	4.72
Universe	2.95	3.79	3.83	2.79	3.22

Source: FTSE Russell

In terms of our Canadian strategy, we think interest rates are close to their cyclical peak; therefore, we maintained the long-duration bias that has generated value added since the start of the year. In this respect, we are monitoring the downward adjusted range of 10-year bond yields (2.65% to 3.65%) established a year ago. In the event of a recession, we think 10-year bond yields could fall quickly in Canada and the United States.

As for the yield curve, it is difficult to construct a scenario in which maturities from 7 to 10 years outperform, because the segment from 2 to 10 years would still have to flatten significantly in comparison with the segment from 10 to 30 years (see graph) in order to become attractive again for us, with the current spread being about 1%.



Source : Bloomberg

Bond Market (cont'd)

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

We increased the weight of real return bonds in the portfolios after they declined at the end of 2022. The 30-year breakeven yield is back to about 1.70%, which is below the Bank of Canada's target. We think this is an interesting entry point for acquiring inflation optionality.

We see the recent widening of credit spreads as a buying opportunity in general, but we are still cautious at this stage when it comes to lower-quality securities, such as subordinated bonds, floating-rate debt securities, commercial real estate and high-yield bonds.

Finally, we had to deal with two surprises in the recent federal budget. The first was a new consultation to abolish CMHC's bond program. Even though such bonds represent about 10% of the Universe index, they are not a significant source of value added for us. Even so, this development could affect the sustainability of the unrated municipal bond market, in which Optimum is very involved. The second surprise was the proposal to disallow, after 2023, tax deductions for intercorporate dividends on shares held by financial institutions – treatment that it is illogical, given the precept of taxing only once in the corporate space. We expect the proposal to increase the volatility of preferred shares, because institutional investors represent a significant portion (~15%) of the market and will in all likelihood reduce their exposure. That being said, preferred shares are still an attractive asset class compared with others, given their generally higher current yield.

Equities

By Nicolas Poirier, Director, Equities

The first quarter of 2023 was positive for all equity markets, with returns ranging from 2.27% for Canadian preferred shares to 10.43% for the MSCI Europe Index (CAD). More specifically, the MSCI Canada Investable Market Index, the benchmark for our Canadian equity strategies, returned 4.59% in the first quarter, even though the energy sector declined.

The various funds and strategies offered by Optimum, and described below, all outperformed their benchmarks.

Even though these quarterly returns are excellent, we remain alert to market signals of a potential recession. Optimum Asset Management's equity portfolios have a defensive bias and should perform better in down markets. The game plan for our clients with balanced portfolios is to reduce the weight of equities in favour of bonds when recession is imminent in order to benefit from falling yields. In the meantime, we think this asset class will still generate attractive returns, although volatility has to be expected.

STRATEGY UPDATES - EQUITIES

Optimum Global Equity Fund

The Optimum Global Equity Fund is a quality-style fund. As a result, this type of fund tends to outperform when bond yields and inflation fall.

With the decline in bond yields and inflationary pressures, the Optimum Global Equity Fund had an excellent quarter with a return of 10.06%, outperforming its benchmark by 2.46%.

The fund was not affected by the setbacks of several U.S. regional banks and Credit Suisse. In fact, our strategy had already excluded this sector, in Europe and the United States, given the low profitability and higher volatility of its securities.

Optimum Canadian Equity Fund

The Optimum Canadian Equity Fund is managed actively by our investment team on a bottom-up basis. The allocation to stocks and sectors is adjusted according to the team members' convictions about growth potential and stability over the long term.

The Optimum Canadian Equity Fund had a solid quarter with a return of 6.61%, outperforming its benchmark, the MSCI Canada IMI (4.59%), by 2.02%.

Even though Canadian banks are among the best in the world, we reduced their weight in the portfolio just before the U.S. regional bank crisis. In the context of rising rates and an economic slowdown, we think banks will see a decline in their profit margins, which reduces their attractiveness in the portfolio. In contrast, we have a strong weighting in the technology sector, which generated an excellent return during the quarter.

Finally, the energy sector recorded negative returns in the first quarter, reinforcing our thesis that the sector is too volatile for the Fund.

Equities (cont'd)

By Nicolas Poirier, Director, Equities

Optimum Low Volatility Canadian Equity Fund

The Optimum Low Volatility Canadian Equity Fund is a quantitative strategy that favours the most defensive stocks in the Canadian index. This Fund tends to outperform its benchmark during market downturns and to underperform when the stock market mounts a strong advance.

The first quarter was positive for the Canadian stock market, but it split into two phases: January saw a solid increase, but February and March were down months. The Optimum Low Volatility Canadian Equity Fund still managed to stand out during the quarter with a return of 5.36%, outperforming its benchmark, the MSCI Canada IMI (4.59%) by 0.77%.

Few changes were made to the fund during the quarter because the securities held continued to meet the strategy's quantitative criteria.

Optimum Canadian Equity Multifactor Strategy

The Optimum Canadian Equity Multifactor strategy, a purely quantitative strategy that aims to exploit inefficiencies in the Canadian stock market, combines three quantitative strategies: Low Volatility, Equal Weight and Momentum. The strategy is designed to outperform its benchmark, regardless of market conditions.

In the first quarter, the strategy outperformed its benchmark, the MSCI Canada IMI, by 1.37% with a return of 5.95%.

Of the strategy's three components, Momentum stood out, with many of the stocks in this component reaching new highs. As for the other two components, Low Volatility and Equal Weight, they also performed well during the quarter.

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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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PRI Principles for Responsible Investment