OPTIMUM
Global Asset Management

Financial Outlook September 2023

By Martin Delage, Canadian Chief Investment Officer

Navigating Uncertainty

In our previous Financial Outlook, we highlighted the resilient labour market as well as the persistently high inflation rate. Even though these factors continued in the third quarter, the economic indicators are increasingly pointing to a recession. That being said, if a recession does occur, it should be mild.

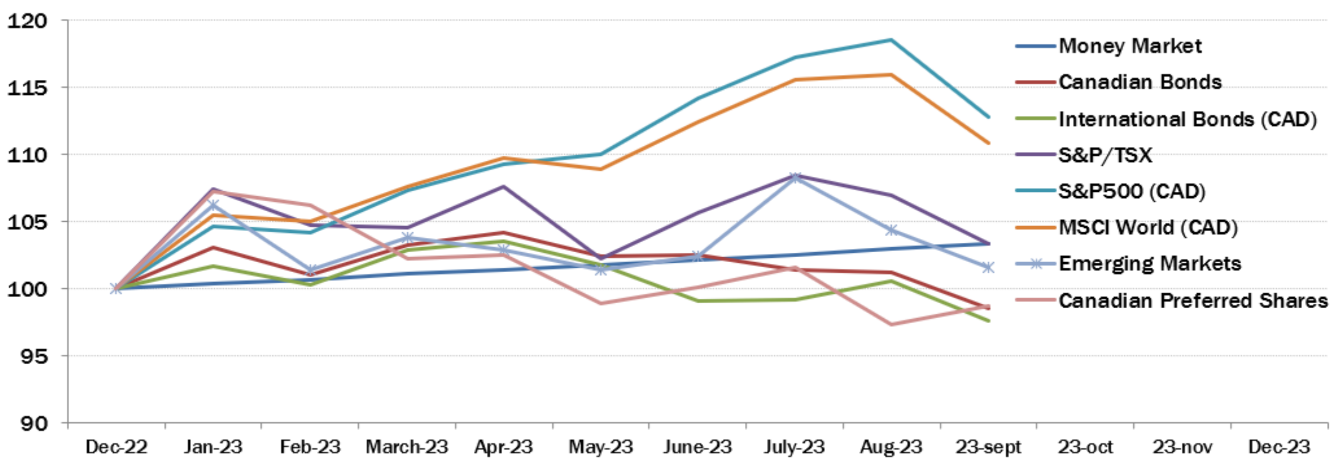
As shown in the table below, the markets were generally down in the third quarter. The decline, which affected the stock and bond markets alike, was driven by a number of factors, including the 0.25% rise in U.S. and Canadian interest rates in July and the resilient labour market, which raised concerns that rates will remain high for longer.

In these market conditions, our management team continues to be active in allocating assets within the portfolios. The last quarter was generally favourable for equities, so the team will take advantage of that strength to reduce our exposure to that market, which has performed better since the start of the year, in favour of an increase in the weight of bonds.

This Market Outlook presents not only our perspective on the economy but also the actions we take every day to ensure we can provide sound management of client portfolios, control risks and optimize returns.

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

Monthly Returns on Financial Markets



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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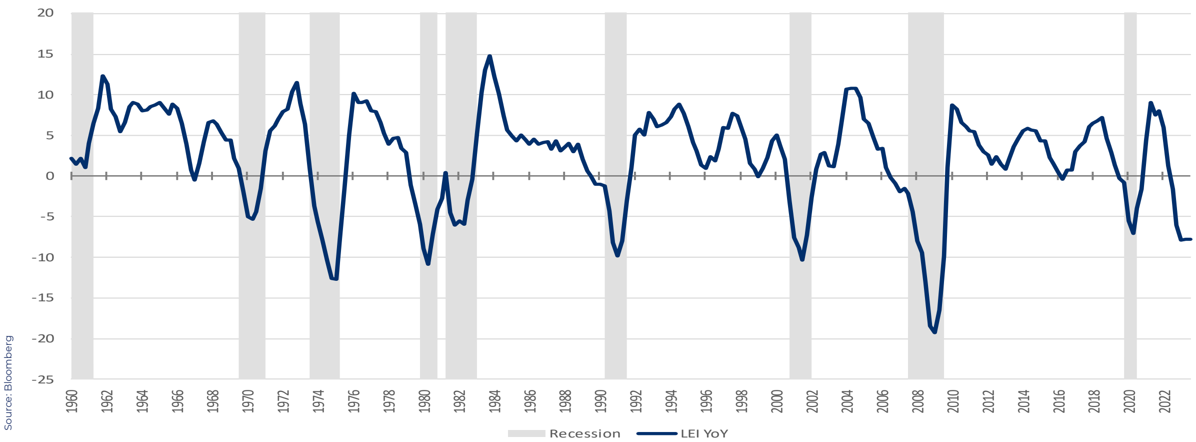
Economy

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

During the third quarter, the global economy witnessed a series of significant economic events and trends. Even though the use of savings and credit declined, the persistence of employment income brought some stability to the economy, making it more resilient than expected. In response, central banks maintained their aggressive monetary policies. A notable consequence of this dynamic was the rise in bond yields in Canada and the United States. Returns on risk assets were mixed and credit spreads became relatively stable, while the equity markets declined by 3% in Canada and 4% in the United States. At the same time, despite the strong U.S. dollar, commodity prices rose significantly, especially the price of oil, which climbed to US$91.

In the United States, a number of leading indicators are pointing to a significant economic slowdown (see chart). Signs of deterioration have also been observed in the labour market, while a debt cycle appears to be emerging. Even though the inflation rate was 3% for the quarter, the U.S. Federal Reserve (Fed) is considering rate cuts to stimulate economic growth, appearing to favour a soft-landing scenario. Even so, this prediction is fraught with uncertainty, because the Fed has been wrong in the past. Monetary policies have long-term, variable effects, with much of their cumulative effect still to come.

The Conference Board's Leading Economic Indicator for the United States



In Canada, despite favourable population growth, the economy is showing worrying signs of slowing, with a real growth rate of -0.2% versus 2.1% in the United States. Many of Canada's leading indicators are weak, including inflation with a base rate of 3.7%.

Turning to the international arena, we see that China is facing increasing demographic pressure, which is exacerbating its export problems, and its real estate market remains unstable. In Europe, conflict continues to weigh on the economy. High energy costs are having a negative impact, and the manufacturing sector's exposure is a concern. Moreover, the Israeli-Palestinian conflict is a reminder that geopolitical risks remain.

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Bond Market

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

Returns on FTSE Russell Indexes in the Third Quarter 2023 (%)

Maturity	Federal	Provincial	Municipal	Corporate	Total
Short	-0.19	-0.41	-0.34	0.13	**-0.12**
Mid	-4.25	-3.63	-3.46	-2.56	**-3.74**
Long	-11.56	-9.87	-8.66	-7.11	**-9.50**
Universe	-3.07	-5.94	-5.03	-2.22	**-3.87**

Source: FTSE Russell

The bond market struggled during the quarter. The increase in U.S. debt prompted Fitch to lower the country's credit rating from AAA to AA+ in August. The price of oil was up, but inflation showed signs of easing in most economies. Even though the Fed held rates steady in September, the 10-year U.S. Treasury yield rose from 3.81% to 4.57%, and the 2-year yield went from 4.87% to 5.05%. Government bonds peaked in September before pulling back slightly.

As for our investment strategy for Canada, in a scenario where we are approaching the peak in terms of monetary tightening, it is advisable to maintain a longer duration. In addition, higher interest rates are seen as an attractive cushion in absolute terms, potentially providing protection in times of stress. The inversion of the yield curve appears to have reached its maximum in July, and the steepening of the curve is expected to continue. We have a slight overweight in high-quality credit because credit spreads are near the middle of their historical range, providing leeway in the event of stress. As for real return bonds, positive carry and the cheap option on structural inflation remain attractive. Preferred shares are also considered an appealing investment, given their higher yield, strong credit quality, shorter duration and adequate liquidity. Finally, there may be a rebound in common shares toward year-end, although stock picking becomes crucial as the risk premium declines. In summary, the current macroeconomic environment is marked by uncertainty related to inflation, growth and monetary policy.

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Equities

By Nicolas Poirier, Director, Equities

During the third quarter, the significant increase in U.S. interest rates had a substantial impact on the global equity markets. The 10-year Treasury yield hit a 15-year high, dragging stocks down. Moreover, as a result of persistent inflation, the Fed said it had not ruled out another rate hike between now and year-end and signalled that it will keep interest rates high for longer than expected.

In Canada, the S&P/TSX Index was down 2.20% on the quarter, with only the energy and health care sectors posting gains. Rising oil prices boosted the energy sector, while the communications and utilities sectors declined because of their interest rate sensitivity.

In the United States, the S&P 500 Index was down 1.29% in Canadian dollars during the quarter, with the only positive sectors being energy and communications. Even though the market advanced until mid-summer, concerns about rising interest rates ultimately weighed on stock market valuations.

Meanwhile, the MSCI World Index fell 1.36% in Canadian dollars, led by the utilities sector, which recorded its worst quarterly performance since March 2020.

EQUITY STRATEGIES UPDATE

	YTD	1 year	2 years	3 years	4 years	5 years	7 years	10 years
Canadian Equity	6.34	12.54	1.97	8.50	8.24	7.99	7.88	7.27
Value Added	**2.37**	**1.80**	**-0.24**	**-1.96**	**0.50**	**0.70**	**0.55**	**-0.16**
Canadian Equity Multifactor	0.66	5.63	0.74	9.15	8.70	8.50	7.34	-
Value Added	**-3.32**	**-5.11**	**-1.47**	**-1.31**	**0.96**	**1.20**	**0.00**	**-**
Low Volatility Canadian Equity	-5.46	-2.99	-2.78	1.66	5.55	8.06	6.22	7.95
Value Added	**-9.44**	**-13.72**	**-4.99**	**-8.80**	**-2.20**	**0.76**	**-1.12**	**0.52**
MSCI Canada IMI Index	3.98	10.74	2.21	10.46	7.74	7.30	7.33	7.43
Global Equity	8.37	20.74	1.02	6.48	7.64	6.68	8.57	10.48
MSCI World Index Net (CAD)	10.86	20.00	2.27	8.52	9.23	8.22	9.76	11.27
Value Added	**-2.49**	**0.74**	**-1.26**	**-2.04**	**-1.59**	**-1.55**	**-1.19**	**-0.79**

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 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.

Global Asset Management

Equities (cont'd)

By Nicolas Poirier, Director, Equities

Optimum Canadian Equity

During the third quarter, the energy sector was the best performer with a gain of 10.27%, and the communications and utilities sectors were the worst, with declines of 12.55% and 11.96%, respectively, given their interest rate sensitivity. The strategy suffered because of our complete absence from the energy sector but benefited from our stock picking in the industrials and technology sectors. Rising interest rates have had less of an impact on these securities because their debt levels are generally below the benchmark index's average.

Optimum Canadian Equity Multifactor

During the third quarter, Canadian stocks fell on investor concerns about rising borrowing costs and the Fed's hawkish comments. It will be recalled that the Multifactor Strategy has three components, Low Volatility, Equally Weighted and Momentum, which respond differently to market conditions. The Equally Weighted component stood out during the quarter thanks to the outperformance of small caps. In contrast, the Low Volatility component declined because of the interest rate sensitivity of some of its securities, including utilities.

Optimum Low Volatility Canadian Equity

The third quarter was a difficult one for low volatility Canadian equities, which recorded a substantial decline, partially because of weak performances by the communications and utilities sectors, which are especially vulnerable to changes in interest rates. The Low Volatility strategy declined because of its overweight positions in these sectors. Even so, we are still convinced that this portfolio of defensive Canadian companies will outperform in future market corrections.

Optimum Global Equity

The global stock markets closed the third quarter lower amid soaring oil prices and rising interest rates. At its most recent meeting, the Fed didn't rule out another rate hike by year-end, reducing the enthusiasm for equities. The Global strategy suffered because of our stock selection in the health care sector and our absence from the energy sector, which both recorded positive performances during the quarter. We continue to think a concentrated portfolio of high-quality securities will outperform the benchmark index over the long term because such companies generally have excellent pricing power that can protect their profit margins in times of inflation.

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WHO ARE WE?

The three asset management firms are subsidiaries of Optimum Financial Group, a diversified, global and privately owned group whose mission since 1969 has been to ensure its clients' financial security.

With a track record of more than 35 years in asset management, we have brought together a team of highly qualified professionals from various areas of the financial and technology sectors.

The firms stand out with their client proximity and excellence. Optimum Asset Management in Canada combines its talents with those of its sister companies, Optimum Gestion Financière in France and Optimum Quantvest in the United States. With teams in three countries, we have privileged access to various markets. The subsidiaries had a combined CA$7.0 billion in assets under management for institutional and private clients as at September 30, 2023..

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Disclaimer

The performance is shown in Canadian dollars, before management fees and is annualized for all periods over one year.

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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.

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