OPTIMUM®
Global Asset Management

Financial Outlook December 2023

By Martin Delage, Canadian Chief Investment Officer

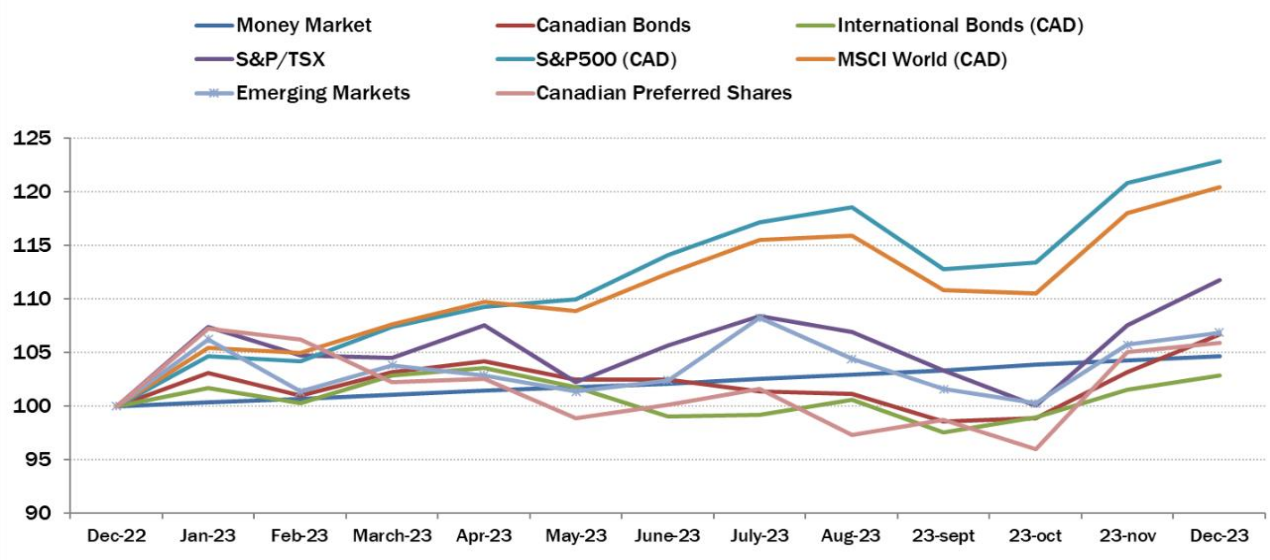
A Bright End to the Year but a Shadow on the Horizon

All financial markets underwent a year of transition in 2023. Concerns about rising interest rates, slowing economic growth and inflation eased. Enthusiasm for artificial intelligence (AI) propelled the Magnificent Seven, a group of tech stocks that accounted for most of the S&P 500's return in 2023. The stock markets ended the year with solid returns of 27% for the S&P 500 and 11% for the TSX. The job market remained robust, but challenges persist. As 2024 gets under way, the markets are cautiously pricing in the U.S. Federal Reserve's stance on interest rates, with expectations of aggressive cuts and possibly a recession.

As for 2024, our management team is actively managing the portfolios to benefit from the stock market's spectacular advance at the end of last year. This year should provide an excellent opportunity for us to reduce our equity positioning in favour of greater exposure to bonds, which may offer more attractive returns.

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

Monthly Financial Market Returns



Source: Bloomberg

Monthly economic video on YouTube
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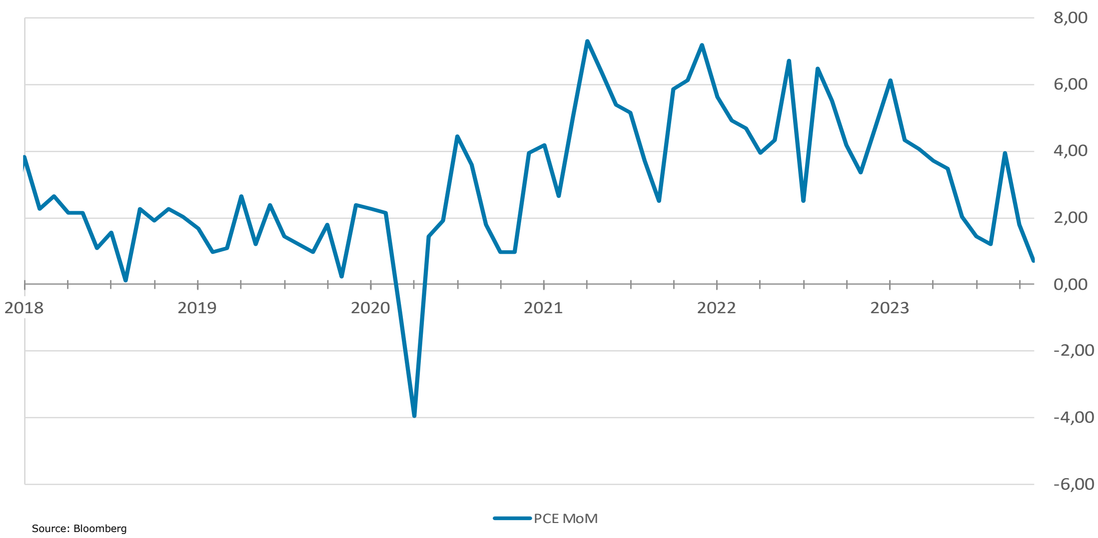
Economy

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

The global financial landscape saw several key developments in 2023. The economy was generally resilient amid a clear disinflationary trend, despite a robust job market and excess personal savings. Even so, U.S. regional banks faced a crisis due to mismanaged interest rates and substantial unrealized losses. In the technology sector, the AI theme caused a sharp uptrend that consolidated the dominance of the industry leaders dubbed the Magnificent Seven: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla. Together, they make up 27% of the S&P 500. Canadian and U.S. bond yields were volatile throughout the year. Risk assets performed well, including equities, with the S&P 500 advancing 27% and the TSX up 11%. In contrast, commodities were down, with the CRB Index and the price of crude oil falling by 4% and 11%, respectively. Even so, gold gained 13% to reach US$2,066 an ounce.

As 2024 gets under way, our base case aligns with the current consensus of a soft landing or a mild recession in the United States. Key indicators, including the Conference Board and the PMI, are pointing to a contraction. In addition, factors such as declining savings, a softening job market and weak consumer spending are contributing to the economic slowdown. Central banks are expected to manage the trade-off between inflation and growth favourably, with enough flexibility to make large rate cuts. Against this backdrop, the U.S. PCE price index, a key inflation gauge for the Federal Reserve, has already moved closer to the official target over the past three months (see chart). This context could provide an opportunity to implement a short-term bias, given our thesis that, over the medium term, higher inflation will play a central role in supporting a globally indebted world.

U.S. PCE Price Index



Source: Bloomberg

Bond Market

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

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

Maturity	Federal	Provincial	Municipal	Corporate	Total
Short	3.61	3.71	4.00	4.78	**4.11**
Mid	8.09	8.29	8.43	8.67	**8.26**
Long	15.82	15.04	13.77	13.61	**14.82**
Universe	6.80	10.42	9.53	7.63	**8.27**

Source: FTSE Russell

The bond market had a strong performance in 2023. The U.S. Federal Reserve decided to keep rates unchanged in December with hints of flexibility that accelerated the market's rally. The Fed's higher-for-longer rhetoric morphed into hints of three rate cuts in 2024. In addition, the PCE price index data were encouraging, with annualized inflation falling to 2.6% in November, below projections.

For our Canadian fixed income strategy, the outlook is positive, given the end of the rate-hiking cycle and the potential protection that bonds offer in times of stress. That being said, given the recent sharp decline in bond yields and the expected steepening of the yield curve, we are waiting for a more opportune time to reposition ourselves on interest rates over the longer term. To take advantage of a potential steepening of the curve, we have revised our positioning to focus more on the centre of the curve. In addition, we are maintaining a slight overweight in credit with a focus on high-quality issuers, because Canadian corporate credit spreads are favourable relative to their U.S. counterparts; such a positioning offers attractive potential in the event of the baseline scenario of a soft landing. We have also slightly increased our exposure to real return bonds, given our longer-term view of inflation.

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Equities

By Nicolas Poirier, Director, Equities

In the fourth quarter of 2023, the equity markets turned in an exceptional performance after the U.S. Federal Reserve changed its tone and began considering rate cuts in response to slowing inflation and economic growth. The soft landing scenario seems to be the one most accepted by investors, given the U.S. economy's resilience to interest rate hikes. Even though employment remains robust, many leading indicators, including the yield curve and PMIs, suggest a recession is on the way. We remain cautious, given the potential for a recession in the coming months. Our overall position in the equity market is neutral, influenced by factors such as the low equity-risk premium, high earnings growth expectations, high price-earnings ratios and a possible economic slowdown.

In Canada, the S&P/TSX Index advanced 8.10% in the fourth quarter. Only the energy sector posted losses. Information technology and financials were the best-performing sectors, amid lower bond yields and reduced risks of loan losses for Canadian banks. The S&P/TSX returned 11.75% in 2023, driven by the technology sector's 69% return.

In the United States, the S&P 500 Index gained 8.93% in Canadian dollars in the quarter. Only the energy sector was down, while the real estate and technology sectors benefited from lower bond yields. Enthusiasm for artificial intelligence-related companies lifted the S&P 500 to a 22.90% return in Canadian dollars for the year as a whole.

Meanwhile, the MSCI World Index recorded a strong gain of 8.66% in Canadian dollars for the quarter, led by the technology and real estate sectors. For the year, the index gained 20.47% thanks to the excellent performance of the U.S. market.

Equity Strategies Update

	YTD	1 year	2 years	3 years	4 years	5 years	7 years	10 years
Canadian Equity	15.04	15.04	3.80	8.45	9.95	11.61	8.21	7.40
Value Added	**2.74**	**2.74**	**0.92**	**-1.44**	**1.08**	**0.17**	**0.41**	**-0.09**
Canadian Equity Multifactor	7.44	7.44	1.80	9.11	9.50	11.96	8.52	-
Value Added	**-4.86**	**-4.86**	**-1.08**	**-0.77**	**0.63**	**0.52**	**0.72**	**-**
Low Volatility Canadian Equity	2.66	2.66	-0.62	4.15	6.46	11.01	7.56	8.06
Value Added	**-9.63**	**-9.63**	**-3.50**	**-5.74**	**-2.40**	**-0.43**	**-0.24**	**0.57**
MSCI Canada IMI Index	12.29	12.29	2.88	9.89	8.87	11.44	7.80	7.49
Global Equity	22.21	22.21	2.64	8.62	9.37	11.09	9.57	10.56
MSCI World Index Net (CAD)	20.47	20.47	2.85	8.51	9.82	12.01	10.46	10.97
Value Added	**1.75**	**1.75**	**-0.21**	**0.11**	**-0.46**	**-0.92**	**-0.89**	**-0.41**

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.

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PRI Principles for Responsible Investment

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Equities (cont'd)

By Nicolas Poirier, Director, Equities

Optimum Canadian Equity

During the fourth quarter of 2023, the Strategy returned 8.17% with 0.17% of value added in relation to the MSCI Canada IMI, which advanced 8.0%. The Strategy benefited from our complete absence from the energy sector and our overweight in the technology sector. In the fourth quarter, technology and financials had the best performances with gains of 24.01% and 12.77%, respectively. Energy and materials were the weakest performers, returning -1.33% and 1.92%, respectively.

Given our focus on high-quality companies, we have a positive outlook on 2024 despite the risks of a recession. Most of our portfolio companies offer essential products and services and are expected to benefit from investor enthusiasm for safety.

Optimum Canadian Equity Multifactor

During the quarter, the Canadian Equity Multifactor Strategy gained 6.74% with -1.26% of value added in relation to the 8.0% return on the MSCI Canada IMI. It benefited from the outperformance of the low-volatility component, given the decrease in bond yields and its heavy weighting in the utilities sector. The Strategy suffered, however, as a result of its underweight in financials and information technology. In the fourth quarter, technology and financials stood out with gains of 24.01% and 12.77%, respectively, while energy and materials had the worst returns, at -1.33% and 1.92%.

Optimum Low Volatility Canadian Equity

The fourth quarter of 2023 was profitable for the Low Volatility Canadian Equity Strategy with a quarterly return of 8.59% and 0.59% of value added in relation to the 8.0% return on the MSCI Canada IMI. This solid performance was due partly to lower bond yields, which increased the appeal of defensive companies paying high dividends. The underweights in energy and materials were also beneficial, although the underweights in technology and financials were counterproductive.

We think the Strategy should benefit from stable or falling inflation, as well as lower interest rates.

Optimum Global Equity

The global equity Strategy was the best quarterly performer of all the equity strategies with a return of 12.77% and 4.11% of value added in relation to the MSCI Net World Index (CAD), which returned 8.66%. The global equity markets closed the fourth quarter sharply higher after reassuring comments from the Fed about possible rate cuts in 2024. The Strategy benefited from our overweight in the technology sector, particularly in the United States, as well as our overweight in the consumer discretionary sector. Moreover, our absence from the energy sector and the automotive industry was advantageous for the Strategy. The high-quality companies that make up the Strategy continue to deliver strong financial results, even though their overall costs are rising. We remain optimistic about the outlook for our high-quality portfolio companies in the coming months, despite the risks of recession.

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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$7.9 billion in assets under management for institutional and private clients as at December 31, 2023.

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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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