Optimum Global Asset Management

Financial Outlook March 2024

By Martin Delage, Canadian Chief Investment Officer

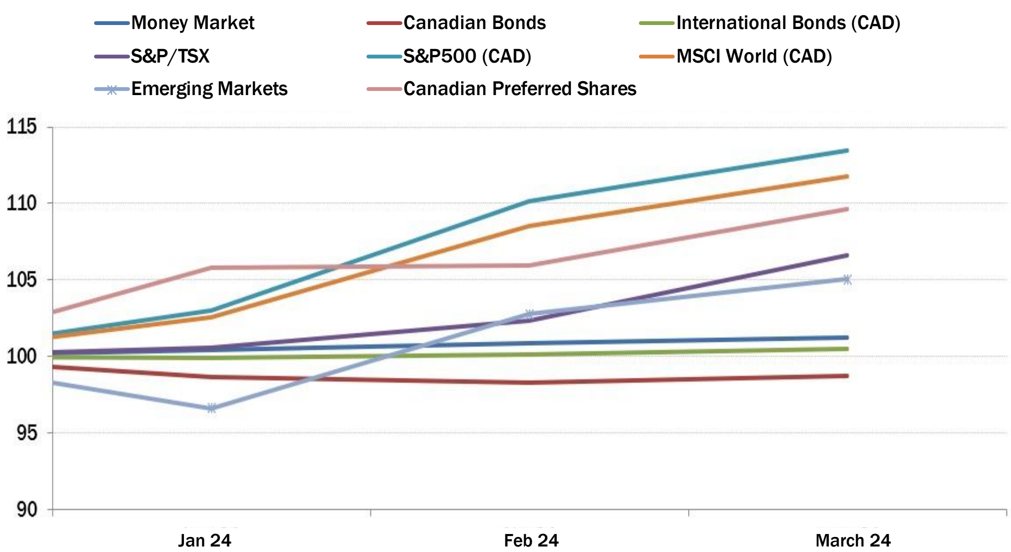
Too Good to Last?

During the first quarter, the equity markets built on the momentum that began last year. The S&P 500 advanced 10.6% in the first quarter of 2024 after returning 26% in 2023, while the S&P/TSX advanced 6.6% after adding 11% last year.

As for bond yields, interest rate cuts did not occur as expected in Canada and the United States because inflation remained high in January and February. The market is pricing in about half of the easing it was expecting from the U.S. Federal Reserve three months ago: now it's looking for cuts totalling 75 basis points in 2024.

In addition, the wars in Ukraine and Israel are still going on. Moreover, there are concerns that other countries, such as Iran, will enter the conflict in the Middle East. This new geopolitical threat is prompting investors to focus more on economic strength and less on monetary stimulus.

Monthly Financial Market Returns



Source: Bloomberg

Monthly economic video

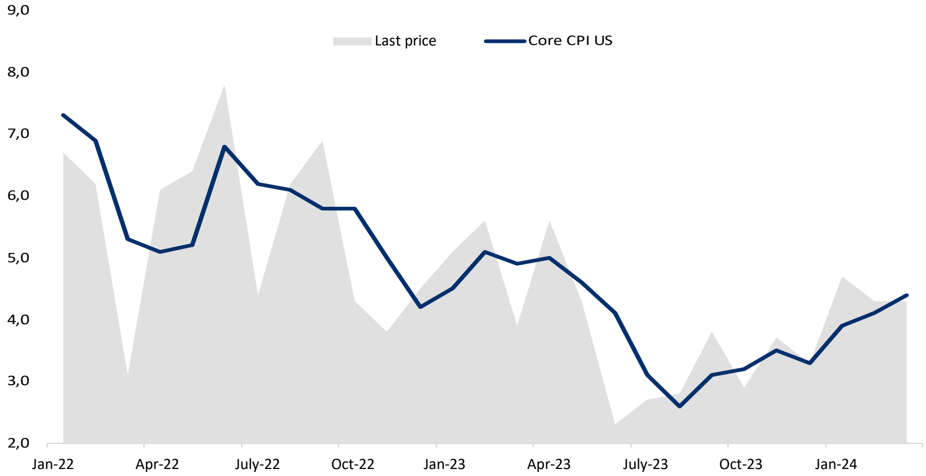
Stay abreast of the economy and financial markets: Watch our videos by clicking on this link (*French only*).

Economy

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

This year has seen a continuation of the remarkable stock market rally that began in 2023. In the first quarter alone, the S&P 500 surged 10.6%, building on last year's 26% gain. As for inflation, even though a number of indicators suggest it is easing, the reality is that the U.S. Core CPI has been rising since last summer (see chart). Although the market is pricing in rate cuts this year, the forecast year-end federal funds rate has risen to 4.6%, signifying that market sentiment has shifted toward less monetary stimulus. Investors seem more concerned about the strength of the economy than reduced monetary support. The labour market looks resilient from the U.S. Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS) report, with a three-month average of 211,000 jobless claims, 276,000 nonfarm jobs created, and 8.8 million job openings. The market is still pricing in rate cuts from the U.S. Federal Reserve, but it expects them to come more slowly because getting inflation back to the 2% target is taking time. Even so, the long-term inflation outlook seems too optimistic, for it ignores potential disruptors, such as deglobalization and rising geopolitical tensions.

U.S. Core CPI



Source: Bloomberg

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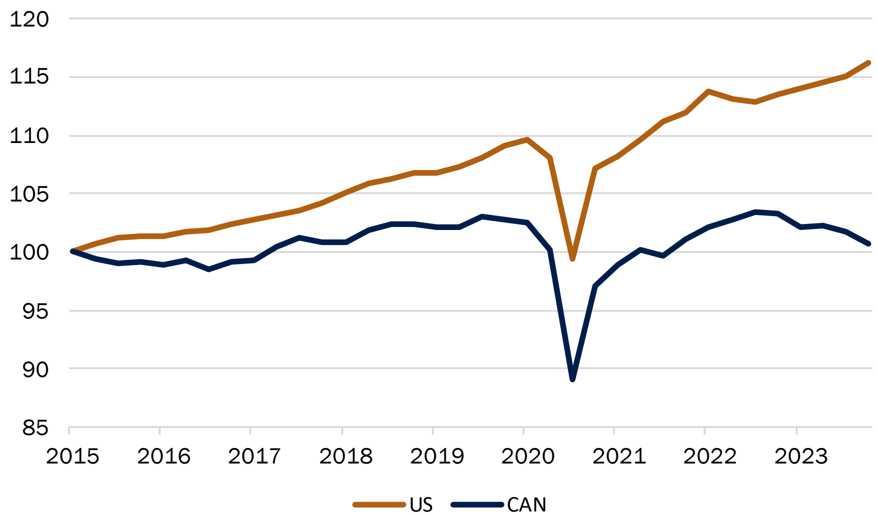
Economy (cont'd)

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

In Canada, the central bank is still reluctant to lower interest rates, opting instead to stand pat and to let the Canadian dollar absorb some of the pressure. More generally, real GDP per capita, while not fully reflecting the deep inequalities in our society, remains one of the most significant indicators of our collective economic wealth (see chart). The recent stagnation of this indicator is causing growing concern, mainly because of underinvestment in technological development, as well as immigration that appears to be poorly planned.

Real GDP per capita



Source: Statistics Canada and BEA

Principles for Responsible Investment

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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 / First Quarter 2024 (%)

Maturity	Federal	Provincial	Municipal	Corporate	Total
Short	0.05	0.07	0.00	0.86	**0.33**
Medium	-1.49	-1.19	-1.20	0.19	**-1.12**
Long	-4.82	-3.96	-3.19	-1.77	**-3.61**
Universe	-1.17	-2.22	-1.72	0.07	**-1.22**

Source: FTSE Russell

The first quarter of 2024 saw significant changes in expectations of interest rates and inflation. Investors expected central banks to lower interest rates quickly, but had their hopes dashed by the economy's surprisingly strong performance during the quarter. At the start of the year, they were pricing in at least three cuts beginning in March; but instead they saw the bond market serve up a slight increase in Treasury yields across the curve. Ultimately, only shorter-dated notes recorded positive returns, while longer-dated bonds, which are more sensitive to interest rates, suffered losses during the quarter.

Notable developments included the historic end of negative rates by the Bank of Japan, which in March raised its key rate from -0.1% to 0.1% for the first time since 2007. At the other end of the spectrum, the Bank of Canada and the U.S. Federal Reserve played it safe, refraining from moving too quickly so as to keep inflation under control.

As for our Canadian fixed-income strategy, we continued to have a generally positive outlook on bonds. This sentiment was based on several factors, including the end of the tightening cycle, bonds' attractive absolute returns, and their potential to act as a hedge during periods of market volatility. That being said, recent signs of economic recovery and inflation have prompted us to wait for a more opportune time to adjust our positioning in favour of a longer duration, namely by targeting the levels seen last October, when Canadian 10-year yields peaked at 4.2%. In terms of credit, we maintained a slight overweight, favouring higher-quality issuers.

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Equities

By Nicolas Poirier, Director, Equities

The first quarter of 2024 saw broad-based gains by the global equity indexes, after their excellent performance in the fourth quarter. Investor confidence was fuelled by the steady progress of the U.S. economy, earnings growth and expectations of productivity gains from artificial intelligence. The U.S. market continued to outperform the other global markets thanks to surging AI-related technology stocks. Even so, we remained cautious because the interest rate hikes of the past year could affect consumer spending, causing a slowdown or a recession in the coming months.

In the United States, the S&P 500 gained 13.5% in Canadian dollars during the quarter. Only the real estate sector was down, while the communications and energy sectors were the leaders. This solid performance was due to enthusiasm over artificial intelligence and an oil price that rose to more than US$80 a barrel.

In Canada, the S&P/TSX advanced 6.6% on the quarter. Only the communications and utilities sectors recorded losses. These defensive sectors were held back by rising bond yields and the stock market's strength during the quarter. The top performers were energy, with the rise in the oil price, and health care.

The MSCI World also posted a strong gain of 11.7% in Canadian dollars on the quarter, led by the communications and technology sectors. The index was pushed up by the strong U.S. stock market, which makes up nearly 70% of the MSCI World.

Equity Strategies Update

	YTD	1 year	2 years	3 years	4 years	5 years	7 years	10 years
Canadian Equity	7.61	16.12	9.25	9.13	17.53	11.11	8.94	7.56
Value Added	**0.64**	**1.27**	**4.80**	**-0.32**	**-0.20**	**0.86**	**0.46**	**-0.01**
Canadian Equity Multifactor	4.60	6.06	1.85	7.22	16.54	10.20	8.86	-
Value Added	**-2.37**	**-8.79**	**-2.60**	**-2.23**	**-1.20**	**-0.05**	**0.39**	**-**
Low Volatility Canadian Equity	2.87	0.28	-0.71	3.83	10.58	8.80	7.34	7.93
Value Added	**-4.09**	**-14.57**	**-5.16**	**-5.63**	**-7.16**	**-1.45**	**-1.13**	**0.35**
MSCI Canada IMI Index	6.96	14.85	4.45	9.45	17.73	10.25	8.48	7.58
Global Equity	9.45	21.80	14.83	11.56	15.67	11.20	10.24	11.12
MSCI World Index Net (CAD)	11.74	25.10	12.26	11.31	17.03	12.36	11.33	11.65
Value Added	**-2.29**	**-3.30**	**2.57**	**0.24**	**-1.36**	**-1.16**	**-1.09**	**-0.52**

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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Equities (cont'd)

By Nicolas Poirier, Director, Equities

Optimum Canadian Equity

The health care and technology sectors were the leaders in the first quarter, with gains of 18.4% and 13.1%, respectively, while the communications and utilities sectors were the laggards, with declines of -8.5% and -1.1%. The strategy benefited from its stock selection in technology and financials but suffered because of its absence from energy and its overweight in consumer staples. The strategy did not benefit from the energy sector's strong performance because our quality filters exclude it.

Optimum Canadian Equity Multifactor

The health care and technology sectors were the leaders in the first quarter, with gains of 18.4% and 13.1%, respectively, while the communications and utilities sectors were the laggards, with declines of -8.5% and -1.1%. The Multifactor strategy benefited from its underweight position and stock selection in the financials sector but suffered as a result of its overweight in communications and utilities as well as its underweight in energy. The low-volatility portion detracted from the strategy's return, owing to weak demand for defensive names during stock market rebounds.

Optimum Low Volatility Canadian Equity

The first quarter of 2024 was more challenging for the Low Volatility Canadian Equity strategy, given the sharp rise in the equity markets and the weakness of the defensive sectors. Communication stocks continued to decline after analysts revised their forecasts downward because of increasing competition within the sector and its weak earnings growth forecasts. The utilities sector suffered from rising interest rates, which lower the profitability of its companies, owing to their high debt levels. That being said, we are convinced that this defensive strategy will stand out in uncertain market environments.

Optimum Global Equity

The global equity markets closed the first quarter of 2024 sharply higher on positive economic data and corporate earnings that suggest a recession is less likely in the coming months. The strategy benefited from its stock selection in the communications sector and its underweight in the consumer staples sector. Even so, the strategy suffered because of its stock selection in technology and financials. For example, it has no position in NVIDIA, which now accounts for 3.5% of the index and returned more than 80% during the quarter. The company is too volatile in terms of price and profitability to meet our stringent quality criteria. As for banks, they have performed well around the world with the lower likelihood of recession but still do not meet our standards; thus, we remain absent from the banking industry.

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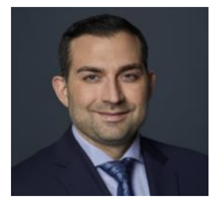

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Who are we?

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$8.0 billion in assets under management for institutional and private clients as at March 31, 2024.

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PRI Principles for Responsible Investment

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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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