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Financial Outlook
June 2024

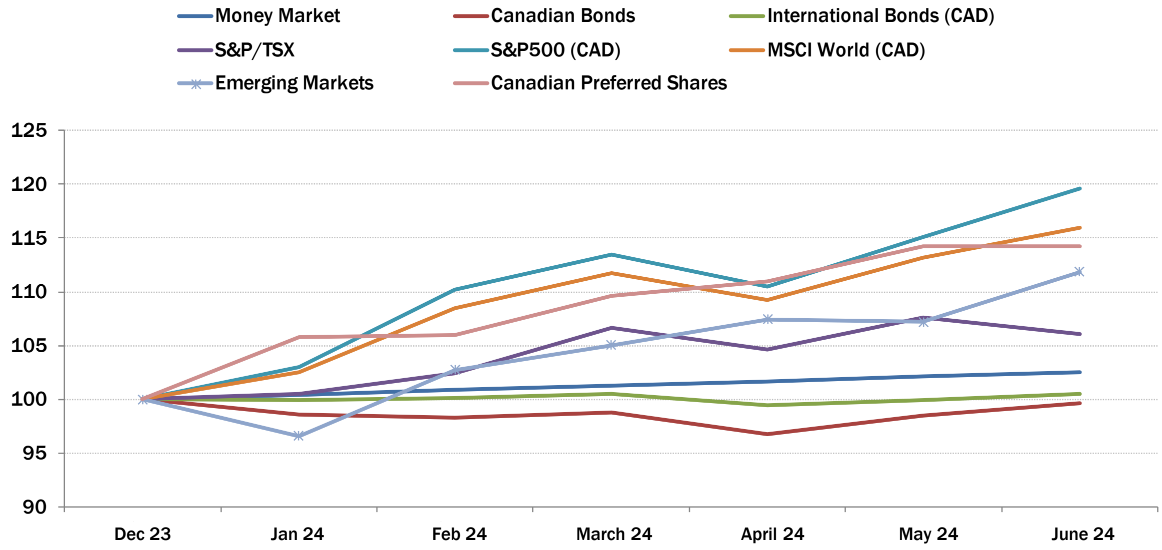
By Martin Delage, Canadian Chief Investment Officer

The Markets Remain Resilient Despite the Economic Slowdown

In the second quarter of 2024:

- The first-quarter trend continued, with positive returns for most of the markets tracked
- The U.S. stock market, as measured by the S&P 500, rose more than 4%, driven mainly by technology stocks
- The quarter's star stock was without a doubt Nvidia, a U.S. artificial intelligence company that advanced more than 35%
- The Canadian equity market, as measured by the S&P/TSX, was down nearly 1%, led by technology and real estate
- Borrowers welcomed a 25-basis-point cut in the Canadian key rate, but it was not enough to return the rate to its level at the start of the year

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

In the second quarter of 2024, clear signs of slowing growth began to emerge after two and a half years of restrictive monetary policy. Despite this trend, the stock market has so far ignored the signals, thanks in part to the Magnificent Seven, especially Nvidia, which continued to drive the S&P 500 Index.

Despite the market's strong performance, the economy as a whole faced challenges. The economic indicators have consistently disappointed since February, as evidenced by the downward trend of the Citigroup Economic Surprise Index (CESI) over the past year (see graph). The discrepancy between market optimism and economic reality has led to a reassessment of growth prospects and economic policies.

As we headed into 2024, the market was hoping that the U.S. Federal Reserve would deliver six rate cuts, but its expectations were dispelled by inflation that remained above the 2.0% target. Today, the market is expecting a rate cut in September because U.S. inflation moderated slightly to 2.60% in May. Moreover, the number of jobs unexpectedly increased in May, reaching 8.14 million, a sign that the labour market remains strong.

Citigroup Economic Surprise Index (CESI)

Source: Bloomberg

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Economy (cont'd)

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

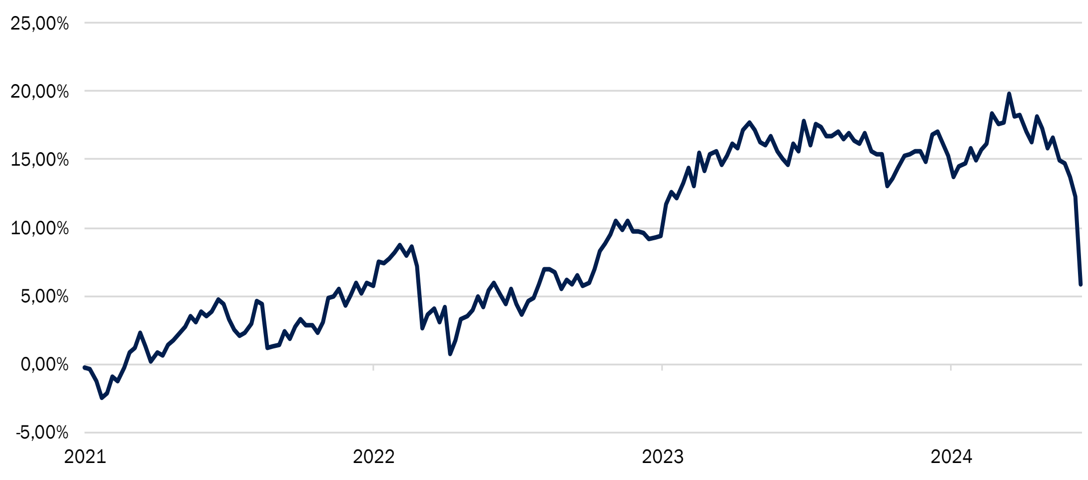
Although the U.S. Federal Reserve left interest rates unchanged, the Bank of Canada and the European Central Bank each announced a 25-basis-point cut in June. The world's government bond markets diverged significantly. U.S. Treasuries initially fell sharply but stabilized later in the quarter as yields decreased and prices recovered.

Europe's political landscape underwent significant changes due to increasing support for far-right parties in a number of countries. In France, the Rassemblement national won 32% of the vote in the European Parliament election, overtaking Emmanuel Macron's party. The financial markets were quite sensitive to all the developments, as shown by the fluctuations of the French stock market, notably the changes in the CAC 40/STOXX 600 ratio, which show the increasing impact of politics on asset management strategies (see graph).

Commodities posted mixed returns, with industrial and precious metals leading the advance by the S&P GSCI Index. Silver is up 22% this year, outperforming gold and copper, which both rose by about 13% in the first half of the year. All three commodities benefited from the market's resilience, owing to artificial intelligence (AI) and electrification, but silver outperformed on strong demand from China.

In conclusion, the quarter was marked by geopolitical uncertainties, central bank actions and sector dynamics, such as AI-related investments that boosted returns across all regions. Market participants will continue to closely monitor economic indicators and policy developments that could shape investment strategies in the coming quarters.

CAC 40/STOXX 600 Relative Performance



Source: Bloomberg

PRI 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 / Second Quarter 2024 (%)

Maturity	Federal	Provincial	Municipal	Corporate	Total
Short	1.12	1.24	1.24	1.42	**1.24**
Medium	0.63	0.92	0.94	1.21	**0.83**
Long	-0.27	0.32	0.58	0.28	**0.22**
Universe	0.80	0.73	0.84	1.09	**0.86**

Source: FTSE Russell

The global bond markets started on a cautious note amid renewed concerns about inflation in the United States, which prompted a reassessment of the timing of interest rate cuts. Even so, the context later improved as job market conditions eased and inflation news became more favourable. Political uncertainty, such as the snap election in France and the potential election in the United Kingdom, contributed to the market's localized weakness. Investment-grade corporate bonds outperformed government bonds, driven by higher revenues in a context of widening credit spreads. In terms of credit, even though interest costs and debt rose, corporate margins remained solid.

Central banks around the world played a key role, with the Federal Reserve adopting a relatively hawkish tone at its June meeting, revising downward the number of rate cuts expected this year. The ECB followed with a 25-basis-point cut, taking into account inflation expectations that have been revised upward. The Bank of England's decision to keep rates on hold was finely balanced in a context of economic uncertainty.

As for our Canadian strategy, we are concerned that, over the medium term, the governments' fiscal extravagance could increase the supply of bonds, which would have a negative impact on the market. In the short term, however, the general economic and financial context suggests that yields could go back down to about 3%, where they were earlier in the year. As the slowdown accelerates, we are emphasizing a position that benefits from a longer duration.

Since October 2020, as Canadian 10-year bond yields have risen from 0.5% to 3.5%, preferred shares have outperformed corporate bonds.

In terms of credit, even though interest costs and debt rose, corporate margins remained solid. We maintained a defensive stance owing to the minimal tightening potential and focused on identifying idiosyncratic securities.

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Equities

By Nicolas Poirier, Director, Equities

The global equity markets advanced in the second quarter of 2024, recording their sixth positive quarter out of the past seven. Their performance was based on strong corporate earnings and hopes of an interest rate cut by the U.S. Federal Reserve later this year. The technology sector especially contributed to the increase, enabling the U.S. market to outperform the world's other markets. That being said, we think the impact of recent interest rate hikes is starting to affect the job market, and we will be proceeding cautiously in the months to come. Our more defensive strategies should benefit from this potentially difficult change in the environment.

In Canada:

- The S&P/TSX Index was down 0.53% on the quarter
- Best sectors: materials, consumer staples and energy
- Worst sectors: health care, real estate and technology
- The higher gold price benefited the materials sector
- The technology sector underperformed on declines in Open Text (-21.2%) and Shopify (-13.5%)

In the United States:

- The S&P 500 gained 5.45% in Canadian dollars during the quarter
- Best sectors: technology, communications and utilities
- Worst sectors: materials, industrials and energy
- Nvidia rose 36.8%, briefly becoming the company with the largest capitalization in the U.S. market, ahead of Apple and Microsoft
- The energy sector's underperformance was due to the decline in the oil price

MSCI World Index:

- The index returned 3.78% in Canadian dollars on the quarter
- Best sectors: technology and communications
- The U.S. stock market outperformed the global index with its high exposure to technology stocks

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Equities (cont'd)

By Nicolas Poirier, Director, Equities

Optimum Canadian Equity

During the second quarter, the strategy benefited from our stock picking in the technology sector, notably our avoidance of Open Text (-21.2%) and Shopify (-13.5%). It also benefited from our stock selection in the consumer discretionary sector, namely our large position in Dollarama (+21.2%) and omission of Magna (-21.5%). That being said, the strategy suffered from our underweight in the materials sector, particularly the mining and metals industry, and our absence from the energy sector. With the stock market potentially running out of steam in the coming months as rate hikes affect consumers, the strategy could stand out because most of our portfolio companies offer essential products and are highly profitable, regardless of the economic context.

Optimum Low Volatility Canadian Equity

The second quarter of 2024 was positive for the Low Volatility Canadian Equity strategy, given its overweight in, and choice of, consumer staples stocks as well as its underweight in Canadian banks. In consumer staples, the solid quarterly return was due to the underperformance of Alimentation Couche-Tard (-0.7%), which the fund does not hold, as well as excellent performances by Primo Water (+21.7%) and Saputo (+16.0%). Interest rate hikes put pressure on consumers and adversely affected the results of Canadian banks, which announced unexpectedly large increases in their loan-loss provisions. The strategy holds no Canadian banks and thus benefited from the industry's decline of about 3.0%.

Optimum Canadian Equity Multifactor

During the second quarter, the strategy benefited from overweights and stock selection in the consumer staples and materials sectors as well as the more challenging period for Canadian banks. Even so, it suffered from its overweight in sectors that are more sensitive to interest rates, namely communications, real estate and utilities. The Low Volatility component stood out during the quarter with its substantial overweight in consumer staples and underweight in financials. The Equal Weight component also took advantage of the strong performance by smaller caps, particularly in the materials sector.

Optimum Global Equity

The global stock markets closed the second quarter higher on the back of strong corporate earnings and renewed hopes of an interest rate cut by the U.S. Federal Reserve in the coming months. The strategy benefited from its absence from the energy and real estate sectors as well as its underweight in the consumer staples sector. That being said, it suffered from stock selection in consumer discretionary, industrials and financials. The strategy also suffered from the underperformance of smaller caps in relation to larger caps. Notably, the S&P 500 Equal Weight Index had its third-worst quarterly relative performance against the S&P 500 since 1990 at -7.0% and its worst relative half-year performance since 2001 at -10.4%. Over the long term, smaller companies tend to outperform larger companies, and we continue to think the next few years will follow this trend.

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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$8.2 billion in assets under management for institutional and private clients as at June 30, 2024.

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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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