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Global Asset Management

Financial Outlook December 2024

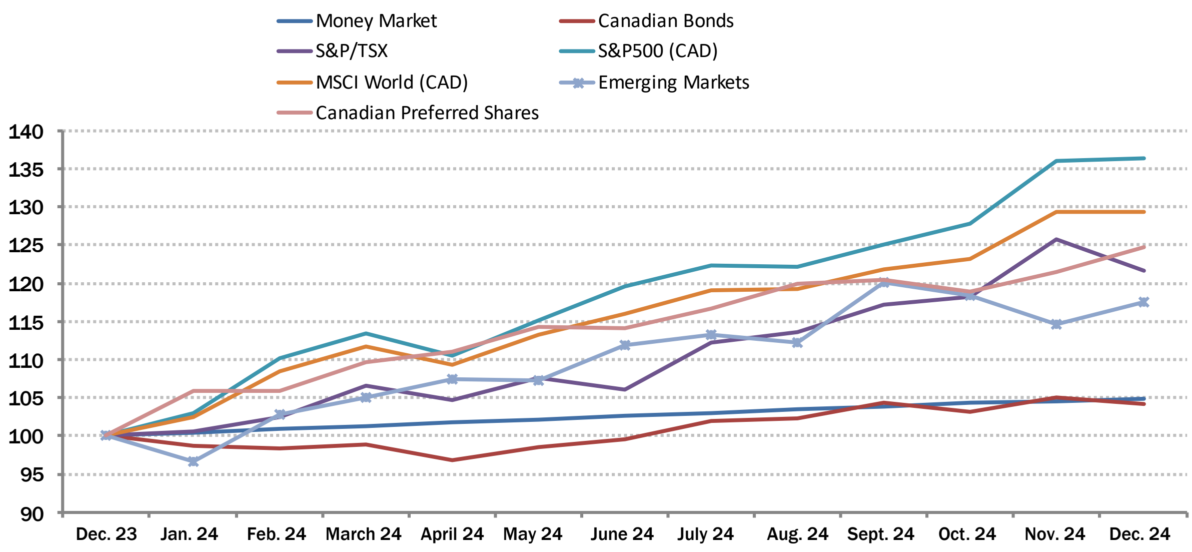
By Martin Delage, Canadian Chief Investment Officer

Resilient Market Despite Economic Uncertainty

Key highlights:

- The U.S. equity market (S&P 500) rose by over 25% (USD) in 2024, buoyed by optimism around growth and expectations of economic policies under Trump
- The Canadian equity market (S&P/TSX) increased by nearly 20% in 2024, driven primarily by the technology sector
- Reduction by 1.00% of the Canadian key rate in the fourth quarter, bringing it to 3.25%

Monthly Financial Market Returns



Source: Bloomberg

Monthly Economic Video
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Economy

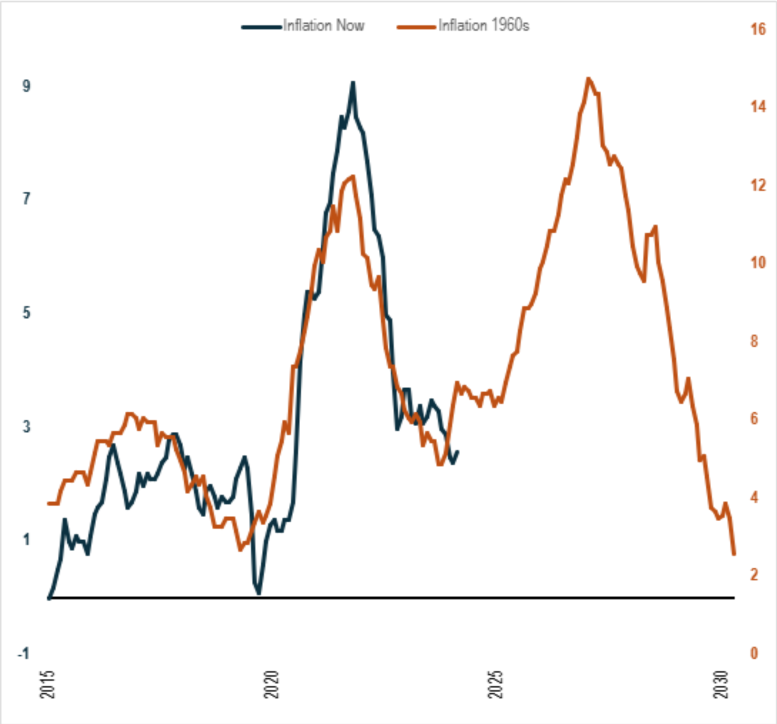
By Hugues Sauvé, FVP, Fixed Income and
Executive Assistant to the Canadian Investment Officer

The fourth quarter continued the positive momentum seen throughout the year, driven by inflation control, accommodative global central banks and technological advancements.

With U.S. economic growth at approximately 3.0%, unemployment at 4.2%, wage growth in Atlanta at 4.3% and a core PCE index at 2.8%, the Federal Reserve’s rate cuts and lingering uncertainty about fiscal stimulus measures leave open the possibility of a second wave of inflation. This scenario, reminiscent of the inflationary trends of the 1970s, could create market conditions similar to those observed in 2022, making it a critical concern for future outlooks.

The widening gap between Canadian and U.S. policy rates highlights Canada’s drift toward a recession. The 100-basis-point rate cut in the fourth quarter weakened the Canadian dollar against the U.S. dollar. Meanwhile, Canadian household debt levels continue to rise, and the real estate sector remains vulnerable.

Current Inflation vs. 1960s Inflation (%)



Source: Bloomberg

PRI Principles for Responsible Investment

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Economy (cont'd)

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

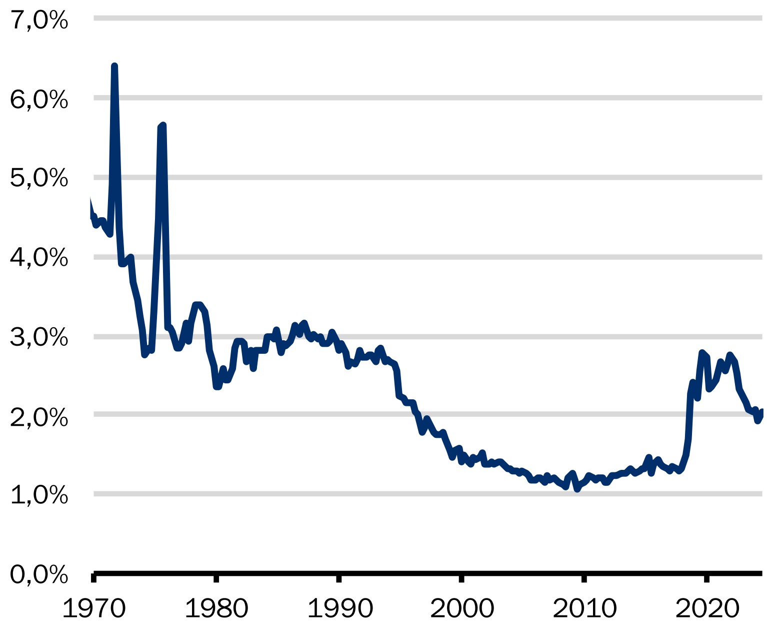
The "Trump Effect" on the Economy

In the U.S., President Trump's re-election, with control over Congress and the Senate and no risk of further elections, promises significant changes. These include tariffs, deregulation and shifts in immigration and fiscal policies. While the exact impact on GDP remains uncertain (see chart below), these policies are expected to be inflationary, increase market volatility and widen the federal deficit. Moreover, despite a strong labor market, signs of cooling, especially among younger workers, are emerging and may intensify as trade disputes take their toll.

Canada's economic outlook remains worrisome, with sluggish growth dynamics, rising unemployment (approximately 7%) and the impending expiration of low-cost mortgages starting in 2020. This will pressure homeowners facing higher rates. Moreover, temporary immigration, a key driver of labor force growth, is expected to turn negative, while an overvalued housing market further limits affordability. Additionally, weak productivity growth and looming risks of new tariffs could disrupt trade relations, further straining the economy.

Meanwhile, China faces its own challenges, particularly weak domestic consumption, exacerbated by inequalities and imbalances in supply and overproduction. In response, China, like many central banks, has increased its gold reserves as a precautionary measure and part of a broader risk diversification strategy away from the dollar, contributing to the rise in gold prices.

Tariffs (GDP %)



Source: FRED

Bond Market

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

Returns on FTSE Russell Indexes / Fourth Quarter 2024 (%)

Maturity	Federal	Provincial	Municipal	Corporate	Total
Short	0.45	0.45	0.58	1.04	**0.65**
Medium	-0.97	-0.23	-0.16	0.93	**-0.41**
Long	-2.95	-0.81	-0.53	1.08	**-0.80**
Universe	-0.44	-0.36	-0.12	1.03	**-0.04**

Source: FTSE Russell

The bond market experienced significant volatility during the quarter, influenced by geopolitical tensions, central bank decisions and inflation fluctuations. Investors remained highly sensitive to data on inflation, wages and U.S. labor markets.

A sharp divergence between the U.S. and Canadian economies affected fixed-income markets. The Canadian yield curve ended the quarter lower and steepened. The 10-year Canadian bond yield rose from 0.27% to 3.23%, while the U.S. 10-year bond yield rose from 0.79% to 4.57%. This divergence put downward pressure on the Canadian dollar, which depreciated by 6%.

The European Central Bank (ECB) also cut rates during the quarter, leaving the policy rate at 3% by quarter-end. Political unrest in France further complicated the landscape, with French bond yields briefly surpassing Greek bond yields for the first time in history due to fears of government instability.

As for our Canadian bond strategies, all our biases performed well during the quarter. Notably, we took profits on our long-duration bias when the 10-year yield reached 3.34%. We also went back to real-return bonds at a breakeven rate of 1.83%, as they provide a favourable option on inflation.

In credit, our stance is defensive owing to the limited potential for gains, which has prompted us to focus on identifying idiosyncratic securities. Despite recent increases, we still consider preferred shares attractive because we think they offer strong risk compensation, supported by favourable technical factors such as issuer buybacks.

Equities

By Nicolas Poirier, Director, Equities

The fourth quarter was marked by positive performance in major global markets, particularly when converted to Canadian dollars. The re-election of Donald Trump in November reignited investor enthusiasm for U.S. equities, given his plans for deregulation and tax cuts. The Federal Reserve also cut its key interest rate twice during the quarter, encouraging risk-taking in U.S. markets. European markets, however, suffered due to concerns over potential tariffs proposed by the new U.S. president as well as the political instability in France and Germany. Lastly, emerging markets ended the quarter lower, reflecting doubts about the effectiveness of China's announced stimulus measures.

In Canada:

- The S&P/TSX Index rose 3.76% during the quarter
- Best sectors: technology, financials and energy
- Worst sectors: communication, real estate and materials
- Canadian banks performed well due to lower-than-expected loan losses
- The technology sector's outperformance was primarily driven by advancements in artificial intelligence

Optimum Canadian Fossil Fuel Free Equity (1.36% gain in Q4 and 21.28% for 2024)

During the fourth quarter, the strategy suffered due to stock selection in the technology sector and an underweight allocation in the financial and energy sectors. However, it benefited from an underweight position in materials as well as its the absence from the communication sector. Increased competition in Canada's telecommunications industry led to price reductions to retain or attract new subscribers, significantly reducing profitability across providers. Additionally, rising interest rates further pressured the profitability of these capital-intensive companies. We remain absent from this sector, which has shown little meaningful growth for several years.

Optimum Low Volatility Canadian Equity (1.57% gain in Q4 and 16.58% for 2024)

The strategy suffered due to stock selection in the technology sector, an underweight position in energy and an overweight allocation to utilities. The enthusiasm for tech stocks tied to artificial intelligence (AI) was not reflected in the strategy due to their high volatility. On the other hand, the strategy benefited from the absence of the communication sector and favorable stock selection in the real estate sector. For the year, the strategy captured approximately 77% of the market's upside, consistent with its historical performance in a strong bull market. The strategy is expected to outperform in the coming months if investor sentiment deteriorates.

Equities (cont'd)

By Nicolas Poirier, Director, Equities

Optimum Canadian Equity Multifactor (2.10% gain in Q4 and 19.70% for 2024)

During the quarter, the strategy suffered due to stock selection in the technology sector and overweight positions in utilities, communication and real estate. These sectors, traditionally more defensive with steady income streams, are highly sensitive to rising interest rates due to their elevated leverage and dividend. However, the strategy gained from stock selection in financials and industrials. The momentum portion of the strategy performed particularly well during the quarter, notably within the financial and energy sectors. For example, one portfolio holding, CI Financial, received a takeover bid at a 33% cash premium and the proceeds of the disposition were reinvested in the portfolio.

In the United States:

- The S&P 500 gained 8.91% in Canadian currency during the quarter
- Best sectors: consumer discretionary, financials and communication
- Worst sectors: materials, healthcare and real estate
- U.S. banks benefited from anticipated deregulation under the new president
- Small-cap stocks underperformed the S&P 500 by 4.56% in Canadian currency during the quarter

MSCI World Index:

- The index returned 6.29% in Canadian currency during the quarter
- Best sectors: consumer discretionary and communication
- European markets ended the quarter lower due to concerns about U.S. tariffs and political instability

Optimum Global Fossil Fuel Free Equity (3.55% gain in Q4 and 19.01% for 2024)

Global equity markets closed the fourth quarter slightly lower in U.S. dollars but sharply higher in Canadian dollars, driven by a nearly 6% depreciation of the Canadian dollar during the quarter. The election of the new U.S. president boosted the American equity market but negatively impacted European markets due to tariff-related fears. The strategy suffered due to stock selection in consumer discretionary and technology sectors, particularly the absence of Tesla, which surged by over 64% during the quarter following improved relations between its leadership and the newly elected president. Additionally, the strategy was impacted by the underperformance of small-cap stocks relative to large-cap stocks. We believe that small-cap companies are better positioned for long-term profit growth, which should enable them to outperform their respective indices over time.

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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 40 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 Inc. in Canada combines its talents with those of its sister companies, Optimum Gestion Financière S.A. in France and Optimum Quantvest Corporation in the United States. With teams in three countries, we have privileged access to various markets. The subsidiaries had a combined CA$8.5 billion in assets under management for institutional and private clients as of December 31, 2024.

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