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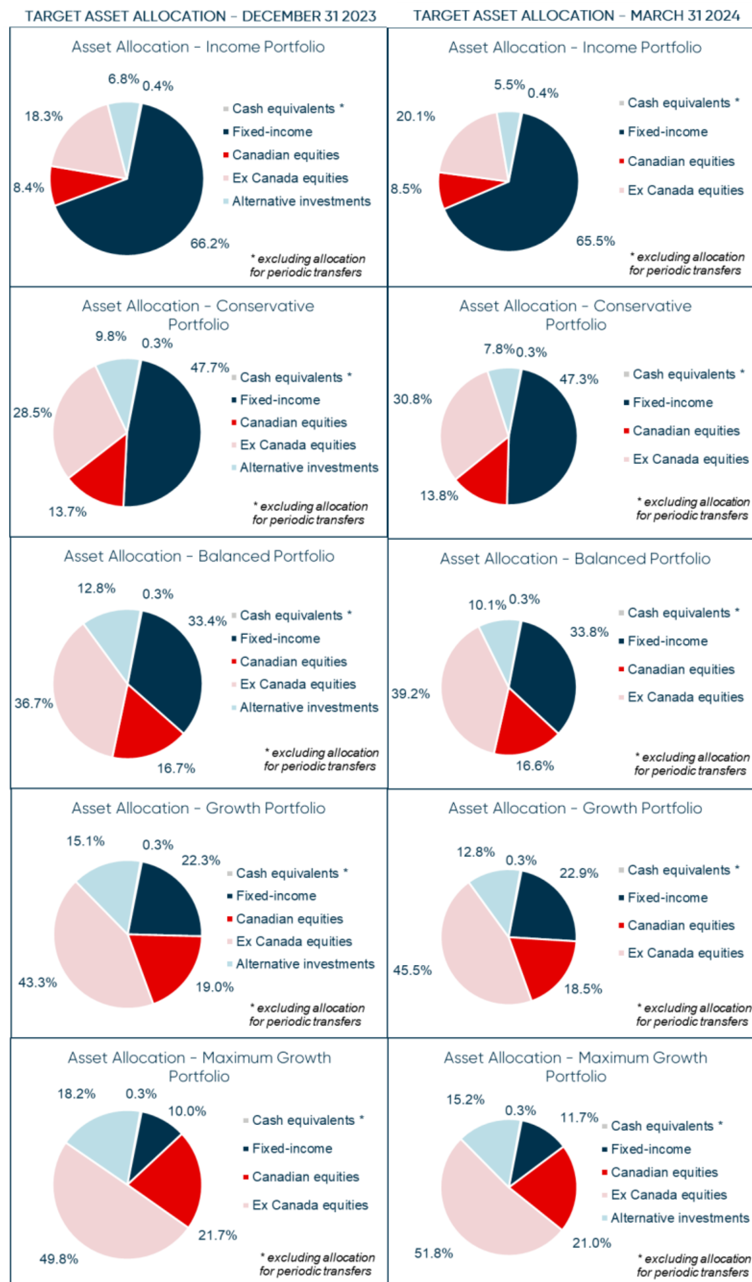
Team Chartier Grandmaison Leclerc

Managers of your family's wealth

1st QUARTER 2024 SUMMARY

Asset Allocation Strategy

In Q1, in an economic context where lower interest rates seem more and more likely, we increased our fixed income weighting and reduced our exposure to alternative investments. The other changes observed are the result of market movements.



Portfolio Model Revisions

We have reduced our exposure to the alternative class by eliminating the **UBS Global Merger Arbitrage (UGA101)** fund position. This defensive fund was designed to deliver a positive absolute return with low volatility in most market environments. With bond yields rising, we determined that we could more easily achieve this goal by adding to bonds. Furthermore, recent comments from central banks announcing the beginning of gradual rate cuts suggest that bonds would be favored in this context. For these reasons, we have decided to increase our exposure to Canadian fixed income in exchange for reducing our exposure to this alternative investment.

Also in the alternative class, the **U.S. Market Income Note Security (NBC22376),** introduced in September 2021, was redeemed in February after the redemption conditions were met and after paying all expected monthly coupons. The note yielded 6.12% annually. We reinvested the proceeds in a new income note, **NBC Auto Callable Contingent Income Note Securities (NBC27500),** linked to the U.S. equity market represented by the Solactive GBS United States 500 Hedged to CAD Index. The objective of the Note is to provide the holder with a cash return of 9% per annum, paid monthly; each Coupon will be paid if, on the Monthly Valuation Date, the index is at least 70% of its level at the time of issuance of the Note. It could be repaid from the 6th month onwards if the index level is at least at 110% of its initial level on a Monthly Valuation Date.

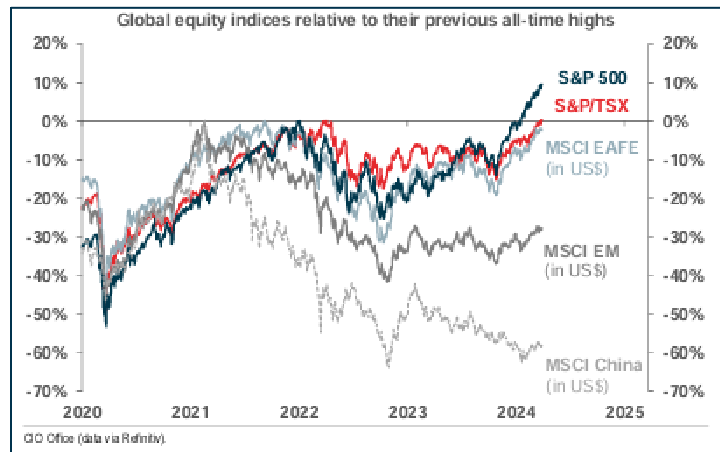
In Canadian equities, we have decided to divest Open Text Corp (OTEX) in favor of Finning International Inc. (FTT). Despite successive positive results as well as favorable recommendations, OTEX's share price has tended to stagnate and we now doubt its ability to appreciate in the medium term. We saw an investment opportunity with FTT, which we have held in the past (bought in November 2022 at $31.42 and sold in July 2023 at $43.35 after a 40% return in 8 1/2 months including dividends received). FTT is a dealer and distributor of Caterpillar brand heavy machinery and parts. The company has operations in Canada, South America, the United Kingdom, Ireland, and other countries. With the share price down below $38, FTT presented an attractive opportunity for appreciation, in addition to its 2.4% dividend.

Finally, in non-Canadian equities, we sold Cisco Systems Inc. (CSCO), which for several quarters had also tended to stagnate relative to the rest of its benchmark market. With the expected return no longer as attractive, we felt it was appropriate to take the profits and reinvest the proceeds in another U.S. stock, Lululemon Athletica Inc. (LULU), a global company specializing in the design, distribution and retailing of technical sports apparel, footwear, and accessories. Following the announcement of its latest quarterly results, LULU has suffered a sharp decline that we believe was exaggerated given its fundamentals which remain strong, and we see this as a buying opportunity.

Quarter Highlights

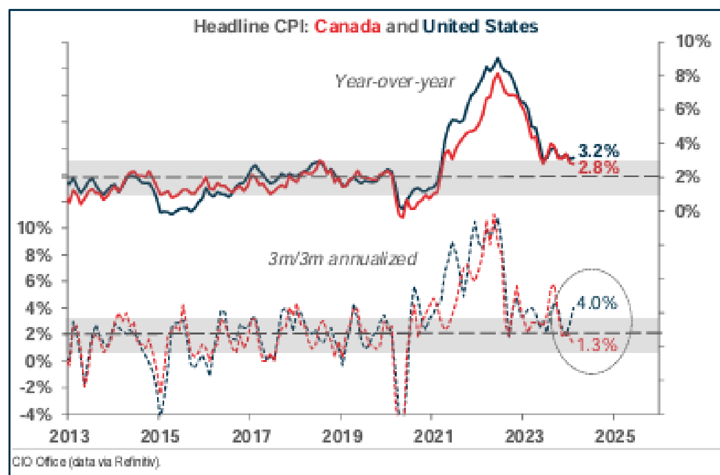
As in 2023, the first quarter of 2024 will have benefited equity markets, particularly in the United States, reaching an all-time high, following the announcement by the US Federal Reserve (Fed) to maintain its rate cut intentions despite a still high outlook for growth and inflation.

In contrast to 2023, the U.S. equity market's performance in the first quarter was better distributed across sectors and not concentrated in technology companies.



The Canadian equity market also hit new records, with international equities close to doing so, and emerging markets lagging far behind, held back in part by China's difficulties.

This is fueling investor optimism, but a degree of economic uncertainty remains and makes the real situation still difficult to assess.



It appears that consumers are somewhat less inclined to spend, judging by the slowdown in retail sales growth and the increase in credit card delinquency rates.

Finally, on the inflation side, uncertainty persists, with the various price indices surprising both upwards and downwards, on both sides of the border.

Outlook

So, what can we expect in the coming quarters? Historically, a rate cut cycle is synonymous with an upcoming economic slowdown and the effects of a cut tend to be felt within 6 to 12 months after the cut.

As such, it will be necessary to closely monitor the evolution of consumer spending and ultimately, the resilience of the labour market, which could be challenged later this year. Still, in the shorter term, the fact that the Fed is opening the door to rate cuts this year, despite inflation stagnating near 3%, could continue to spark optimism in equity markets for a few more months. Markets are likely to react with relatively high volatility to indicators of the evolution of inflation, depending on whether they suggest the start of the rate cut cycle soon (positive market reactions) or not (market pullbacks).

The debate over whether a recession is imminent is diminishing in importance, with the consensus growing in favor of either avoiding a recession or otherwise having a mild recession. It's important to remember that recessions don't necessarily have to be feared, although for some investors, it's easy to feel bad during an economic downturn.

If we take a step back from stock market fluctuations and instead look at the historical performance of a traditional balanced portfolio over the last seven recessions, we see that the average return was actually -1%, which is a far cry from the financial catastrophe that many seem to believe, as shown in the table below.

Balanced portfolio (60/40)* total return

Recessions (NBER)	12-months Before	During Recession	12-months After	Full period**
Nov 1973 - Feb 1975	7%	-7%	12%	11%
Jan 1980 - Jun 1980	11%	9%	7%	31%
Jul 1981 - Oct 1982	9%	15%	26%	57%
Jul 1990 - Feb 1991	4%	6%	9%	21%
Mar 2001 - Oct 2001	-1%	-5%	-8%	-14%
Dec 2007 - May 2009	1%	-16%	9%	-8%
Feb 2020 - March 2020	16%	-9%	22%	28%
Average	**7%**	**-1%**	**11%**	**18%**

The trend is therefore still towards caution. Let's remember the unpredictable nature of markets and therefore the importance of being soundly diversified in our investments. In an environment where macroeconomic uncertainty remains, and as usual, our process and discipline lead us to focus on high-quality, reputable investments that have demonstrated good historical financial strength, while presenting attractive and realistic return prospects. Our priority is to guide you through market fluctuations over time and ensure your long-term financial success.

"A goal without a plan is just a wish." - Antoine de Saint-Exupéry

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