Our expertise, your success

Team Chartier Grandmaison Leclerc

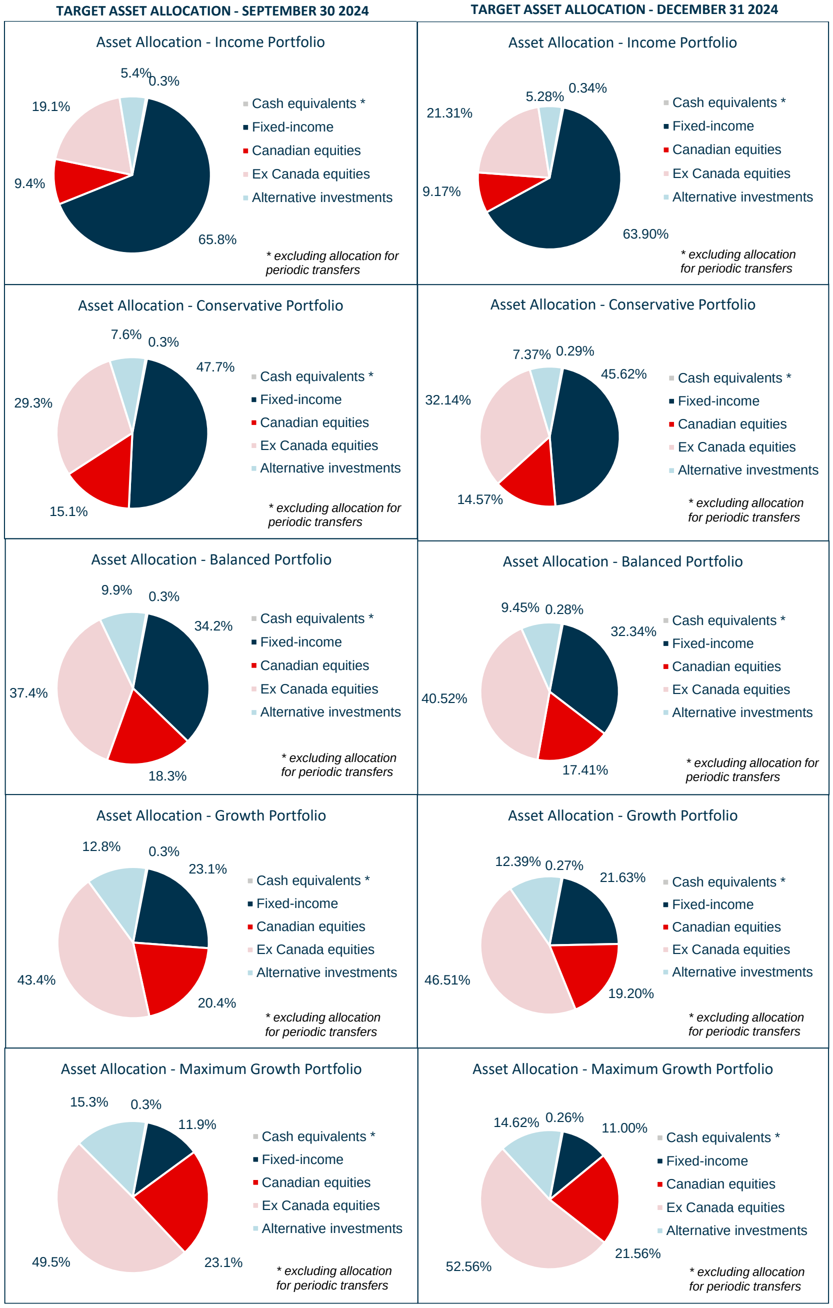
Managers of your family's wealth

4th QUARTER 2024 SUMMARY

Asset Allocation Strategy

In the 4th quarter, we did not change our target asset allocation. The observed variations are solely due to market movements.

TARGET ASSET ALLOCATION - SEPTEMBER 30 2024 | TARGET ASSET ALLOCATION - DECEMBER 31 2024



Portfolio Model Revisions

During the quarter, in the alternative class, the **NBC Auto Callable Contingent Income Note Securities (NBC27500),** which was introduced in February 2024, was redeemed in October after the redemption conditions were met and after paying all the expected monthly coupons. This note provided an annual return of 9% during the holding period. We reinvested the redemption proceeds into two new income notes:

- 60% were invested in **NBC Auto Callable Contingent Income Note Securities (NBC29674)** linked to the U.S. stock market and represented by the Solactive GBS United States 500 Hedged to CAD Index 3% Decrement.

- 40% were invested in **NBC Auto Callable Contingent Income Note Securities (NBC29673)** linked to the U.S. small and mid-cap stock market and represented by the Solactive United States 2000 Hedged to CAD Index 3% Decrement.

The objective of these two notes is to provide the holder with a cash return of **8.52%** per year for **NBC29674** and 9.60% for **NBC29673**, paid monthly; each coupon will be paid if, on the monthly evaluation date, the level of the reference index is at least equal to 70% of its initial level at the time of issuance of the note. In both cases, it could be redeemed early starting from the 12th month, if the level of the reference index is at least equal to 110% of its initial level on a monthly evaluation date.

Within Canadian equities, we have chosen to sell our shares of **BCE Inc.** This decision was motivated by the uncertainty related to high infrastructure costs, business transformation initiatives, and regulatory challenges in the sector, as well as the stagnation of the stock over several quarters.

After we sold BCE Inc., the stock depreciated by almost 20% as of the time of writing.

We reinvested in the **iShares S&P U.S. Mid-Cap Index ETF (XMH)**, which focuses on U.S. mid-cap companies (companies whose size would mostly be comparable to large-cap Canadian companies). These companies offer high growth potential with less risk than small caps and could benefit from the changes the Republican administration plans to implement. Current valuations are attractive, and the downward trend in interest rates favors this type of investment. Additionally, XMH provides increased diversification in the sector and is not affected by CAD-USD exchange rate fluctuations (at the current level of the U.S. dollar, we deemed it prudent not to expose ourselves to a return to its historical averages). These advantages make it a strategic choice to optimize our portfolio and maximize long-term returns.

Finally, we decided to sell our shares of **Manulife Financial Corp (MFC)**. Considering that we had exploited the growth potential of the stock, we took the profits and decided to reinvest in **Exchange Income Corp (EIF)**, which we already held as a complement to MFC.

EIF has several competitive advantages. First, the diversification of its activities in various sectors such as aviation and industrial manufacturing helps reduce risks and benefit from multiple sources of revenue. Secondly, EIF follows a well-defined acquisition strategy, facilitating rapid growth and the integration of complementary businesses. Finally, the company is known for its efficient management and disciplined cost approach, allowing it to maintain high profitability while offering an attractive dividend of 4.8% to its shareholders.

Quarter Highlights

The markets once again surprised in the 4th quarter and ended the year on a high note. While the global context, particularly tensions in the Middle East, the U.S. election and the war in Ukraine raised concerns, none of these situations resulted in significant market volatility. Throughout the year, the S&P 500 index never experienced a decline greater than 8.5% (observed between July 16 and August 5).

Inflation continued to slow down, central banks began a cycle of easing, economic growth held steady, and profits increased. Whether we prefer to talk about a soft landing, mid-cycle slowdown, or return to a normal cycle, we will remember that in 2024, the economy showed resilience and rewarded patience.

United States: The U.S. economy continued to show signs of resilience despite high interest rates and persistent inflation. GDP growth for 2024 is estimated at 2.7%, supported by robust consumption and industrial investments. The labor market remains tight with an unemployment rate of 4.2%, slightly above expectations. Wage growth has outpaced inflation, providing consumers with increased purchasing power. The Federal Reserve maintained an accommodative monetary policy, with rate cuts expected to support economic growth.

Canada: The Canadian economy showed signs of slowing in the fourth quarter. The unemployment rate rose to 6.8%, mainly due to an increase in the participation rate. GDP growth for the third quarter was 1.0%, below expectations. Data from September and October estimates indicate a slowdown in growth in the fourth quarter. The Bank of Canada responded by lowering interest rates, which contributed to the decline in Canadian bond yields. Economic prospects for 2025 remain uncertain, with increased risks of recession.

In our model portfolios, the performance in the 4th quarter was largely driven by non-Canadian Equities and alternative investments. Throughout the year 2024, all asset classes contributed positively to the annual return, with our two equity sub-models leading the way.

Regarding Canadian equities, the financial sector stocks we held during the year, including Manulife, CIBC, National Bank, and Intact, stood out with excellent performances. They were the top contributors in this asset class and enabled our sub-model to outperform the Canadian market index S&P/TSX in seven out of twelve months.

As for non-Canadian equities, they were the main growth driver of the portfolio this year, thanks to our selection of stocks such as Broadcom, Costco, Ares Management, and Amazon. Additionally, our strategic choices of underweighting certain sectors (energy, healthcare) and overweighting others (technology, financials) were rewarded, allowing the sub-model to outperform the MSCI World market index by more than 6% in 2024.[2]

The year 2024 ended beautifully despite all the negative news we heard. The main lessons to remember this year:

> Don't try to predict the short-term market direction; no one can do it.
> The best time to invest is when you have the money to do so.
> Be diversified.

[1] Economic data comes from Trading Economics (November data).
[2] Data from Morningstar.

Outlook

Five Key Themes for 2025

1. Global Economy: Moving in the Right Direction

   In the new normal, which closely resembles the old normal, the global economy is expected to progress throughout 2025, but at varying rates depending on countries and regions. The fundamentals of the U.S. economy should remain stable, while Canada and Europe will face challenges. China's results will depend on its stimulus measures and their effect on the national economy. If successful, China could give a boost to the global economy.

2. Central Bank Policies: Finishing What Was Started

   Even though they have won the fight against inflation, central banks need to finish what they started. To bring key interest rates back to a neutral position, they will need to balance economic priorities such as price stability, unemployment, and growth.

3. Fixed Income Securities: Taming the Old Normal

   While central banks will do their part to reduce short-term interest rates, government deficits and moderate inflation will keep long-term bond yields at relatively high levels.

4. Stock Markets: Valuation Still Matters

   In the stock markets, value remains a key factor, whether it is in the stock, sector, or region. In 2023 and 2024, stock market returns were more driven by rising multiples than by earnings growth. A fair price for quality earnings will, in our view, be the key to success in 2025.

5. Post-Election Period: The Unknown

   Following the U.S. election, changes in trade, tax, and regulatory policies could create both opportunities and uncertainties that may affect corporate profits and sector results. However, history has shown that it is important not to over-interpret these conjectures, as sectors expected to benefit from the policies of a particular administration have not always delivered the expected market results.

In 2025, investors will need to adapt to the return to the "old normal," which will require caution and opportunism. Due to regional disparities and policy changes, the investor's journey will be fraught with obstacles, but discipline will be rewarded.

We continue to prioritize quality and tactical selection, especially as valuations normalize and fixed income securities once again offer competitive rates. It will be crucial to maintain a balance between asset classes, investment styles, and regions. With our diversified positioning and monitoring of fundamental economic factors, we aim to reap the benefits of an economy in the normalization phase, which will reward patience, prudence, and adaptability.

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