MARQUIS
INSTITUTIONAL SOLUTIONS

Second Quarter Commentary

June 30, 2024

Market Overview

In the second quarter, the divergent paths of the U.S. and Canadian economies were on full display. The U.S. economy remained strong while globally, interest rates began to be cut. The Bank of Canada led the G7 in cutting rates by 25 basis points, followed by the European Central Bank. The Federal Reserve continues to monitor economic fundamentals and easing has been pushed out until inflation is controlled. With this backdrop, the outlook for the U.S. remains uncertain but markets are pricing in a soft landing with the easing cycle beginning later in the year. Commodities generally were flat, with WTI Crude Oil finishing at 0.8%, which starkly contrasted the double-digit returns seen from last quarter. Industrial and precious metals finished positively for the quarter. Both silver and copper had double-digit performance, likely related to input demands fuelling the artificial intelligence (AI) boom.

Canadian stocks finished mostly flat at -0.5% (C$) for the quarter. Conversely, U.S. stocks ended at 5.4% (C$), led by the Information Technology, Communication Services, and Utilities sectors. The mega-cap technology and AI-focused stocks continued their dominance this quarter. Global stocks mirrored a similar sector-level story to the U.S. but finished slightly lower at 3.8% (C$) for the MSCI World Index. The outperformance of growth, quality, and momentum investment styles was consistent with the broader leadership seen across equity markets for the period.

The Canadian bond market, represented by the FTSE Canada Universe Bond Index, reversed trends from earlier in the year and finished the quarter at 0.9% (C$). High-yield and corporate bonds were the standout performers, continuing the trend seen in the previous quarter. U.S. bonds, on the other hand, finished flat overall due to muted results from the underlying constituents. As in the previous quarter, investment-grade and high-yield spreads continued to narrow, further supporting improving credit market conditions.

Index and Currency Returns (%) Period Ended June 30, 2024

		Three Months	Six Months	One Year	Three Years	Five Years
Equities	S&P/TSX Composite Index	-0.5	6.1	12.1	6.0	9.3
	S&P/TSX Equity Income Index	-1.5	2.8	6.6	6.2	8.7
	S&P/TSX Small Cap Index	0.8	8.8	14.4	1.3	8.1
	S&P 500 Index (C$)	5.4	19.6	28.8	13.7	16.1
	MSCI EAFE Index (C$)	0.7	9.3	15.3	6.4	7.4
	MSCI World Index (C$)	3.8	16.0	24.3	10.5	12.8
	MSCI World Value Index (C$)	-0.1	10.2	17.8	9.1	8.5
	MSCI World Growth Index (C$)	7.5	21.7	30.7	11.1	16.3
Fixed Income	FTSE Canada Universe Bond Index	0.9	-0.4	3.7	-1.8	-0.0
	FTSE Canada All Corp Bond	1.1	1.2	6.5	-0.1	1.4
	Bloomberg Barclays Global High Yield Index (C$)	2.2	7.1	15.6	3.9	3.6
Currency	Canadian dollar vs US dollar	-1.0	-3.2	-3.2	-3.2	-0.9
	Canadian dollar vs Euro	-0.3	-0.2	-4.3	-0.9	-0.3

Source: Morningstar, as at June 30, 2024

Fixed Income Update

Over the second quarter, both 1832 AM Canadian Fixed Income and Dynamic Global Fixed Income strategies posted positive returns. Within the Canadian Fixed Income sleeve, short duration was contributor in the first half as yields rose, but negative contribution from security selection. Duration was moved to a more neutral position, and credit hedges were removed. The view is that bond yields have peaked, with the start of U.S. monetary easing expected to be supportive of bonds, despite potential election-related volatility, while the credit sector remains well-supported. The Dynamic Global Fixed Income Strategy tracked its benchmark this period. Within the sleeve fixed income returns were positive driven by income as rates modestly increased and credit risk premiums were stable, though options used as a hedge detracted as volatility was muted, and tactical credit positions also detracted slightly. Overall, outlook remains positive, with attractive yields and likely capital appreciation as central banks lower rates, though the tight labor market could limit near-term rate cuts. The portfolios are well-positioned to navigate these dynamics and capitalize on emerging opportunities.

Equity Update

Over the second quarter, the equity portions of the portfolios showed positive but different regional results. The Canadian equity segment detracted from performance on a absolute and relative basis when compared to the S&P/TSX Composite Index. 1832 AM Canadian Growth Strategy led this segment outperformed due to sector exposure and solid security selection, mainly in Information Technology and Communication Services. Conversely,1832 AM Equity Income Strategy was the lowest performer in this segment. Within the global equity segment, international stock performance was almost flat, while most holdings across other market areas finished postive or showed solid performance. The Fiduciary Large-cap Value and 1832 AM U.S. Growth strategies both finished in positive territory, as holdings contributed to performance but trailed the S&P 500 Index. Epoch's Global Choice Strategy outperformed for the period and stock selection contributed on a relative basis compared to the MSCI World Index. While returns across equities for the quarter were mixed, the year-to-date performance continues to look bright. Overall, the portfolios have navigated the market environment well, providing investors with solid returns across both the Canadian and global equity components.

Sub-advised Strategy Update

(six institutional managers quarterly)

1832 Asset Management L.P.

Core (Canadian Fixed Income)

In Q2 2024, the Canadian Fixed Income Strategy tracked performance of the FTSE Canada Universe Bond Index. Overall short duration positioning helped early on as yields rose, but negative security selection detracted, as the strategy lacked some well-performing benchmark corporates. The team adjusted duration to neutral and removed credit hedges. Any minimal U.S. exposure was fully hedged. We believe the U.S. 10-year Treasury peak at about 5% has been reached, and expects monetary easing in September to support lower yields and a steeper curve, despite potential volatility around the U.S. election. The credit sector remains well-supported by favorable dynamics, attractive yields, and resilient fundamentals, though valuations are not cheap. Moving forward the invesment team maintains a constructive bond market outlook.

Payden & Rygel Investment Management

Diversified (Global Fixed Income)

During the second quarter of 2024, the Global Fixed Income Strategy tracked the performance of its FTSE Canada 91 Day Treasury Bill Total Return Index. Fixed income returns were broadly positive, driven primarily by income as interest rates modestly increased and credit risk premiums were mostly unchanged. All core income sectors contributed positively, with less rate-sensitive securitized credit and higher-yielding credit being the main performance drivers. However, options used as a risk hedge detracted from performance due to relatively muted volatility, and tactical credit positions slightly underperformed as new issue concessions declined. This strategy maintains lower duration and focuses on optimizing yield through credit, aiming for resilience across macroeconomic scenarios while preserving running yield. The team closely monitors the interplay of data, rates, and asset prices, with inflation as the primary concern over growth given tight valuations.

1832 Asset Management L.P.

Growth (Canadian Equity)

The Canadian Growth Strategy outperformed the S&P/TSX Composite Index over the period. Key drivers of relative outperformance were strong security selection in the Information Technology, Communication Services, and Consumer Discretionary sectors. Within Information Technology, the U.S.-driven stock picks were the primary contributors. Security selection in the Communication Services sector, also mainly U.S.-driven, and the Consumer Discretionary sector, which included some Canadian holdings, were additional top contributors. On the other hand, security selection in the Materials and Industrials sectors detracted from relative performance. The portfolio positioning remained consistent with the prior quarter, and there were no currency hedges in place during the period.

Epoch Investment Partners, Inc

Value (Global Strategy)

In Q2 2024, the Epoch Global Choice Strategy performed in line with the MSCI World Index. Sector allocation effect was slightly positive, primarily driven by an overweight to Communication Services. Stock selection was marginally negative driven by Information Technology and Industrails. Top contributors were Alphabet, Broadcom, AstraZeneca, Apple, and Amazon.com, while Airbus SE, Salesforce, On Semiconductor, Visa, and Evolution detracted. The investment team made portfolio changes to improve risk-return, initiating positions in NVIDIA, Union Pacific, and JPMorgan Chase, and exiting Bank of America, Arista Networks, Pernod Ricard, and Deere & Company. Sector weights remained broadly in line with prior quarters, with slight overweights in Health Care, Communication Services, and Consumer Discretionary, and an underweight in Financials.

Montrusco Bolton Investments

Small-cap Strategy (Canadian Equity)

In Q2 2024, the Small-cap Strategy underperformed the S&P/TSX Small Cap benchmark due to style and industry allocation. Top contributors were NuVista, Computer Modelling Group, and Tilray Brands, while bottom detractors included Hudbay Minerals and Boyd Group Services. Information Technology and Financials were the top performing sectors, while the Consumer Discretionary and Real Estate sectors lagged. The investment team initiated new positions in New Gold, TerraVest Industries, and Stella-Jones, and increased Savaria and Parex. Positions in Eldorado Gold, Andlauer Healthcare, and Granite REIT were reduced. Despite interest rates nearing multi-decade highs, we continue to remain optimistic on the equity market performance in 2024 given the underlying economic strength and resilience.

Baillie Gifford Overseas

Global Alpha Strategy (Global Equity)

The Global Alpha Strategy underperformed its benchmark over the quarter. Major indices continued their upward trajectory, albeit at a more moderate pace than at the end of 2023, due to the Federal Reserve maintaining higher interest rates for longer than initially anticipated. The portfolio's broad exposure to diverse companies lagged the tech and communication sector-led index. The top contributor was Alnylam Pharmaceuticals, whose share price soared on positive late-stage trial results for its drug targeting a heart condition. Another contributor was pet supplies retailer Chewy, which reported strong sales and earnings. However, the portfolio faced headwinds from holdings like low-cost airline Ryanair and building materials company Martin Marietta Materials. The manager sold long-held positions in Tesla and Alibaba, and initiated new investments in UnitedHealth and Kweichow Moutai.

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