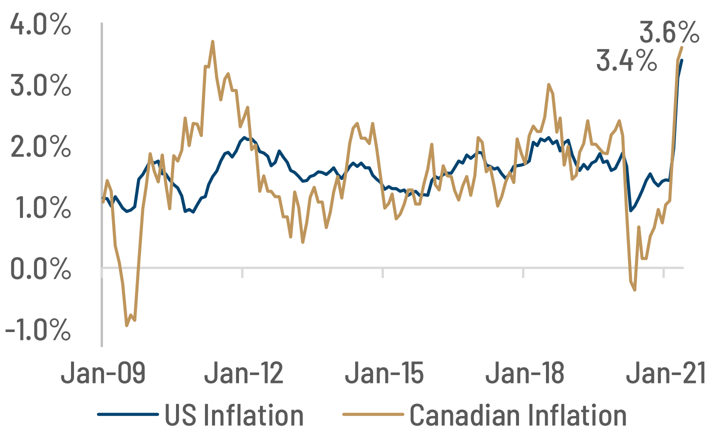
Quarterly Macro Overview Q2 / 2021

MATCO FINANCIAL

The first two quarters of 2021 have been very positive for investment markets around the world. Economic data continues to surprise on the upside. The first quarter saw very strong returns, which have taken a pause in the second quarter. The positive takeaway is that this has allowed earnings to play catch-up to market valuations, which is a very healthy development.

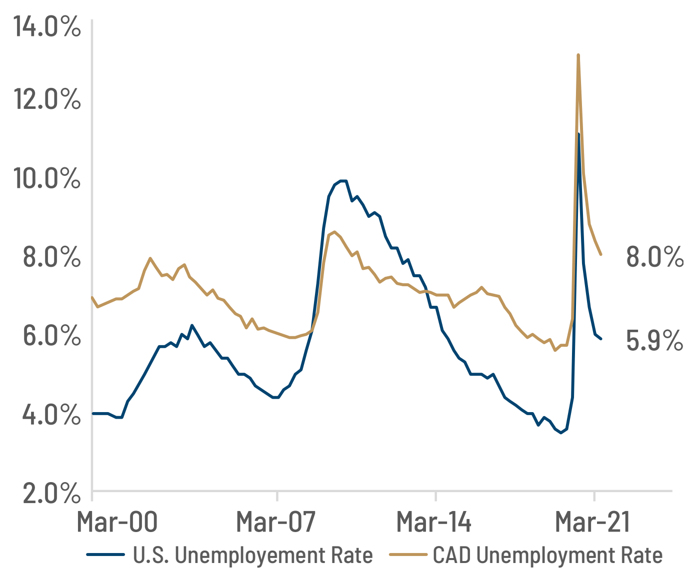
In terms of economic data, growth and inflation were both front and center in the first half of 2021. The economic recovery has been very robust, and GDP growth has continued to print above expectations. This has been very well received by investment markets. However, inflation has also surprised on the upside throughout the first half of the year. This has raised the question as to whether higher inflation will persist into the future, potentially forcing central banks to begin shifting from stimulating the economy through policy to normalizing policy to a more balanced state. Overall, this has caused equity markets to moderate their upward trajectory in the second quarter.

Canadian and U.S. Inflation



Source: Bloomberg

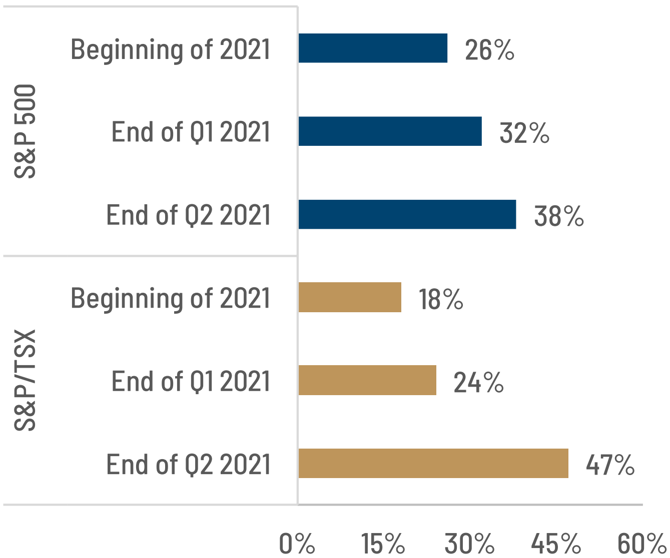
Canadian and U.S. Unemployment



Source: Bloomberg

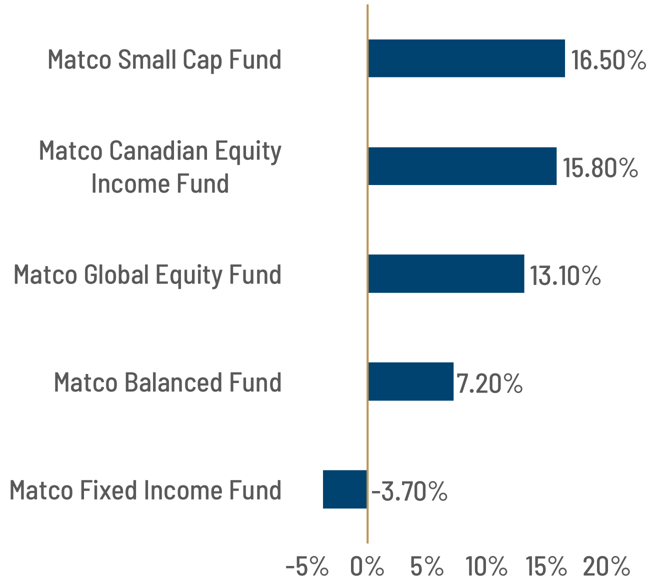
Although the COVID-19 pandemic continues to be a major factor for the economic outlook, it has not dominated discussions in 2021 the way it did in 2020, which is a positive sign going forward. Investment markets continue to assess COVID-19 as a risk but are now equally as focused on economic growth, the labor market recovery, and the progression of the industrial production cycle. The labor market has recovered significantly since the pandemic began in March of 2020. North American unemployment rates, which peaked around 13%-15%, have moved to a much healthier 6%-8%. Similarly, with consumers benefitting from low interest rates, while government stimulus cheques also line their spending pockets, global consumption has been very strong in 2021. This has been apparent in global manufacturing and global production data throughout the first half of this year. When we take a more granular view of the world, corporate earnings data has also been very positive. Earnings growth expectations at the beginning of the year were for companies to grow their earnings by approximately 26% and 18% in both Canada and the U.S., respectively. These expectations were revised higher at the end of the first quarter as well as the end of the second quarter. Within our Matco M-Factor investment process, which focuses on nine specific investment fundamentals to select the companies we invest in, four of those factors are earnings based. To that end, the earnings outlook is critical in how we manage portfolios, but equally as important is whether those expectations are moving higher or lower. With expectations continuing to move higher in 2021, our positive outlook for equity markets has been reinforced. However, we are cognizant that the positive earnings revisions for 2021 have been at the expense of the earnings outlook for 2022. As we all know, investment markets are forward looking. We continue to watch very closely how the earnings expectations for 2022 evolve as we head into the latter half of the year. Although equity markets paused their growth in the second quarter, the last two corporate earnings sessions have been very strong. Company earnings continue to grow while stock markets move sideways, which helps improve the valuation of markets. In a sense, corporate earnings needed to play catch-up to the valuation or expensiveness of the markets and this took place in the second quarter. Although less exciting to see markets moved sideways, we view this very positively. As an investor, patience can be a virtue.

2021 Earnings Growth Estimates



Source: CPMS

Performance YTD



Source: Matco Financial Inc. (Series F), RBC

All things considered, performance in the first half of the year has been very positive. Our Canadian equity investment mandates are up approximately 16% year-to-date while our global equity mandate is up approximately 13% year-to-date. We are very pleased with this positive performance. Although equity markets have been very strong, the fixed income landscape has been under some pressure. Interest rates rising in the first quarter led to negative performance, however some ground was made up in the second quarter. This leaves our Matco Fixed Income Fund down approximately 4% year-to-date. Our Matco Balanced Fund, which participates in both the fixed income and equity mandates, has also had very positive performance. The Fund is up approximately 7% year-to-date, a very strong result for a balanced risk exposure. As we look out to the second half of 2021 and beyond, we remain vigilant in executing our disciplined investment process. Our M-Factor process allows us to stay ahead of the curve, while understanding that patience can be equally as powerful for an investor's portfolio. As always, through the execution of our process, we remain focused on preserving and growing your investment capital.

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Sector allocation, top 10 holdings, and country allocation based on percentage of portfolio assets

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 Document: MATC.QMO.21.20.01