



# Financial and Economic Notes

July 2011 vol. 136

## Highlights

North American markets reported negative returns in Q2 while EAFE reported a respectable gain in Canadian dollar terms due to currency.

### Economic indicators

After a strong start to the year with quarterly GDP rising to 3.9% on an annualized basis in Q1, the second quarter GDP should be more modest with expectations around 1.75% due to the global economic slowdown. However, we are forecasting a rebound in GDP growth for the second half of this year and should see GDP for 2011 come in around the 3% range.

On the inflation front, the CPI for May surprised on the upside at 3.7% YoY fuelled by higher gasoline prices. Even without this effect, and other volatile elements, the Bank of Canada (BOC) Core Inflation came in at 1.8% YoY. This was somewhat higher than what the BOC expected. Obviously, this has put pressure on the BOC's current low interest rate policy. However, the increase in the CPI headline should be temporary and we expect to see a trend back to the BOC's target of 2%.

After an annual growth rate of 1.9% in the first quarter, the U.S. economy hit a soft patch which could see second quarter GDP once again below 2%. Obviously, this modest growth rate is insufficient to improve the U.S. employment situation.

The Euro zone and its sovereign debt crisis are back in the spotlight again this quarter. While many countries are of concern, Greece is the most acute. Even with the good news that Greece had met the conditions to secure a second round of bailout funding; the differential in yields compared to German bonds has continued to touch new highs. Moody's recently downgraded the sovereign credit rating of Portugal by multiple grades pushing it to junk status.

On a positive note, China's Q2 GDP came in at 9.6% beating expectations. This was slightly below the 9.7% in the preceding quarter. In early July the Peoples' Bank of China raised rates for the fifth time since October 2010 just before releasing its CPI numbers which are running at 6.4% YoY for June led by higher food prices.

### Financial markets

There were two key factors impacting markets in the second quarter. Firstly, the global economy experienced a more severe slowdown than expected resulting from Japan's earthquake. Secondly, persistent and negative headlines related to the sovereign debt crisis weighed heavily on global markets as fears that a Greek default could trigger a spill over to other countries and to the financial sector.

The resource-laden Canadian market was impacted by the sell-off in commodities as they reacted to weaker economic growth. On a relative basis, the Energy sector (-8.4%) and Materials sector (-8.0%) were the two largest contributors to the negative return of the S&P/TSX Composite Index this past quarter.

In the U.S., the fiscal situation, stubbornly high unemployment and lacklustre economic growth continued to overhang equity markets. Even with the Greek debt crisis front and center this quarter EAFE markets performed well on lower valuations and faster growth.

Fixed income markets rallied in the second quarter with the DEX Universe Bond Index appreciating 2.48%. This was more than enough to erase the negative return reported in the first quarter and lift the year-to-date return to 2.20%. Provincial, municipal and corporate bonds outperformed the 2.36% return of Federal bonds. For the second quarter of 2011, quality definitely prevailed in the credit space with Provincial bonds returning 3.15%, Municipal bonds 3.04%, and Corporate bonds 2.37%.



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## Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2011

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
<b>ASSUMPTION / LOUISBOURG FUNDS</b>							
<b>Balanced Fund - RPP</b>	-1.4	1.9	13.0	9.3	2.6	1.8	3.8
Multi-Index	-1.6	1.5	13.6	10.3	2.6	2.1	4.4
<b>Canadian Dividend Fund</b>	-2.4	5.4	30.7	21.0	3.4	3.5	6.5
S&P / TSX Index	-3.3	0.2	20.9	16.3	0.2	1.8	5.7
<b>U.S. Equity Fund (\$CAN)</b>	-1.7	4.4	18.2	9.0	2.8	-0.9	2.0
S&P 500 Index (\$ CAN)	-2.2	2.8	18.8	11.4	1.5	-3.4	0.0
<b>Money Market Fund</b>	0.1	0.6	1.0	0.7	1.4	n/a	n/a
SCM 91 Day T-Bills	0.1	0.5	0.9	0.6	1.1	n/a	n/a
<b>Canadian Equity Fund</b>	-4.0	-0.7	22.9	12.0	-2.0	-0.8	2.5
S&P / TSX Index	-3.3	0.2	20.9	16.3	0.2	1.8	5.7
<b>Fixed Income Fund</b>	0.1	2.4	5.2	7.0	6.9	6.4	6.0
SCM Universe Bond Index	0.1	2.2	4.7	5.8	6.2	6.3	6.0
<b>Growth Portfolio</b>	-2.6	1.5	n/a	n/a	n/a	n/a	n/a
Multi-Index	-2.7	1.0	n/a	n/a	n/a	n/a	n/a
<b>Balanced Growth Portfolio</b>	-2.0	1.8	n/a	n/a	n/a	n/a	n/a
Multi-Index	-2.1	1.2	n/a	n/a	n/a	n/a	n/a
<b>Balanced Portfolio</b>	-1.4	1.9	n/a	n/a	n/a	n/a	n/a
Multi-Index	-1.4	1.5	n/a	n/a	n/a	n/a	n/a
<b>Conservative Portfolio</b>	-0.7	2.3	n/a	n/a	n/a	n/a	n/a
Multi-Index	-0.7	1.8	n/a	n/a	n/a	n/a	n/a
<b>MONTRUSCO BOLTON FUNDS</b>							
<b>Small Cap. Canadian Equity Fund</b>	-5.4	-4.3	28.6	39.0	9.6	7.1	9.9
BMO NB Small Cap Weighted Index	-6.4	-5.6	32.1	35.3	6.8	0.6	5.4
<b>TSX Momentum</b>	-2.8	4.6	34.9	30.8	-0.4	4.8	10.6
S&P / TSX Index	-3.3	0.2	20.9	16.3	0.2	1.8	5.7
<b>FIDELITY FUNDS</b>							
<b>Canadian Opportunities Fund</b>	-5.2	-1.4	25.7	28.2	9.8	8.6	10.9
S&P / TSX Small and Mid Cap Combined Index	-4.6	-1.1	28.8	28.9	5.4	3.0	5.7
<b>True North Fund</b>	-2.4	0.4	19.5	14.5	-1.2	1.8	7.0
S&P / TSX Index	-3.3	0.2	20.9	16.3	0.2	1.8	5.7
<b>Overseas Fund</b>	-2.0	0.4	19.6	9.5	-2.8	-7.3	-1.3
MSCI EAFE Index	-1.7	1.8	18.5	7.0	-3.6	-6.4	-1.4
<b>Global Health Care Fund</b>	-2.1	8.8	16.0	10.9	5.9	2.4	4.2
Goldman Sachs HealthCare Index	-2.0	9.9	16.8	8.5	5.1	0.4	1.9
<b>Global Technology Fund</b>	-3.4	-3.9	16.6	11.5	5.2	-0.2	3.9
Goldman Sachs Technology Index	-3.3	-2.7	12.7	9.2	2.2	-1.7	2.1
<b>Europe Fund</b>	-2.4	2.7	25.2	12.0	-6.0	-2.9	4.3
MSCI Europe Index	-2.3	5.9	23.5	9.3	-3.6	-6.7	-0.8
<b>American Disciplined Equity Fund</b>	-2.7	0.6	19.3	11.1	-0.6	n/a	n/a
S&P 500 Index (\$CAN)	-2.1	2.8	18.8	11.4	1.5	n/a	n/a
<b>NorthStar Fund</b>	-1.4	0.9	18.1	15.0	1.7	n/a	n/a
MSCI World Index	-2.0	2.1	18.7	9.2	-1.4	n/a	n/a
<b>Monthly Income Fund</b>	-0.9	6.6	18.6	18.5	8.7	n/a	n/a
Multi-Index	-1.6	1.5	13.6	10.3	2.6	n/a	n/a
<b>Canadian Asset Allocation Fund</b>	-2.0	-0.4	14.4	11.4	3.5	n/a	n/a
Multi-Index	-1.6	1.5	13.6	10.3	2.6	n/a	n/a
<b>Far East Fund</b>	-4.2	-2.3	n/a	n/a	n/a	n/a	n/a
MSCI AC FE ex Jap (G)	-3.1	-0.4	n/a	n/a	n/a	n/a	n/a



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## **Assumption Life Investment Funds** **Applicable for Registered Pension Plan clients only**

**Gross returns as of June 30, 2011**

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
<b>CI FUNDS</b>							
<b>Harbour Growth &amp; Income Fund</b>	<b>-1.1</b>	<b>1.1</b>	<b>16.7</b>	<b>11.2</b>	<b>3.1</b>	<b>3.2</b>	<b>5.4</b>
Multi-Index	-1.6	1.5	13.6	10.3	2.6	2.1	4.4
<b>Synergy American Fund</b>	<b>-2.3</b>	<b>3.8</b>	<b>22.3</b>	<b>10.5</b>	<b>-1.0</b>	<b>-2.8</b>	<b>0.5</b>
S&P 500 Index (\$CAN)	-2.1	2.8	18.8	11.4	1.5	-3.4	0.0
<b>Global Managers Corporate Class Fund</b>	<b>-2.2</b>	<b>2.3</b>	<b>17.9</b>	<b>9.7</b>	<b>5.3</b>	<b>0.7</b>	<b>3.8</b>
MSCI World Index	-2.0	2.1	18.7	9.2	-1.4	-4.8	-0.7
<b>Signature Canadian Bond Fund</b>	<b>-0.1</b>	<b>2.5</b>	<b>4.9</b>	<b>7.0</b>	<b>6.4</b>	<b>6.4</b>	<b>6.2</b>
SCM Universe Bond Index	0.1	2.2	4.7	5.8	6.2	6.3	6.0
<b>Signature High Income</b>	<b>-1.3</b>	<b>5.2</b>	<b>20.1</b>	<b>20.3</b>	<b>7.8</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-1.6	1.5	13.6	10.3	2.6	n/a	n/a
<b>American Value</b>	<b>-2.3</b>	<b>4.2</b>	<b>20.3</b>	<b>10.4</b>	<b>1.1</b>	<b>n/a</b>	<b>n/a</b>
S&P 500 Index (\$CAN)	-2.1	2.8	18.8	11.4	1.5	n/a	n/a
<b>Synergy Global Corporate Class</b>	<b>-1.9</b>	<b>3.4</b>	<b>23.3</b>	<b>12.2</b>	<b>-1.3</b>	<b>n/a</b>	<b>n/a</b>
MSCI World Index	-2.0	2.1	18.7	9.2	-1.4	n/a	n/a
<b>Global Small Companies</b>	<b>-3.4</b>	<b>0.8</b>	<b>27.9</b>	<b>16.4</b>	<b>5.1</b>	<b>n/a</b>	<b>n/a</b>
MSCI World Index	-2.0	2.1	18.7	9.2	-1.4	n/a	n/a
<b>AGF FUNDS</b>							
<b>Dividend Income Fund</b>	<b>-2.7</b>	<b>4.5</b>	<b>22.5</b>	<b>17.7</b>	<b>4.2</b>	<b>n/a</b>	<b>n/a</b>
S&P / TSX Index	-3.3	0.2	20.9	16.3	0.2	n/a	n/a
<b>International Stock Class Fund</b>	<b>-1.0</b>	<b>10.7</b>	<b>22.9</b>	<b>6.5</b>	<b>-1.6</b>	<b>n/a</b>	<b>n/a</b>
MSCI EAFE Index	-1.7	1.8	18.5	7.0	-3.6	n/a	n/a
<b>Global High Yield Bond Fund</b>	<b>-1.5</b>	<b>2.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Globe High Yield Income Peer Index	-0.9	3.1	n/a	n/a	n/a	n/a	n/a
<b>Emerging Markets Fund</b>	<b>-1.3</b>	<b>-3.8</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
MSCI Emerging markets Free (\$Cdn)	-1.9	-1.9	n/a	n/a	n/a	n/a	n/a
<b>Global Resources Class Fund</b>	<b>-3.4</b>	<b>-2.6</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Globe Natural Resources Peer Index	-5.6	-5.2	n/a	n/a	n/a	n/a	n/a