

Financial and Economic Notes

July 2017 vol.160

Equity Markets

In Canada, equities gave back most of the gains that were accumulated during the first quarter of the year. The weakness was rather mild and gradual but it was persistent throughout the second quarter. For the three-month period, the S&P/TSX Composite returned -1.6% while US and International equities offered stronger results. Investors debated the interest rate raising pace and path, which caused Financials to offer a slightly negative performance (-1%) while all other non-resource sectors generated positive returns.

The S&P 500 index continued its strong run, delivering a 3.1% total return (in USD) during Q2. The loonie also continued its pattern of strength, chewing into returns for Canadian investors. The S&P returned just 0.4% in CAD terms. While the sideshow was very much the lack of progress out of Washington, investors were encouraged by positive signs of a healthy economy globally and pushed equities higher. Earnings growth was exceptionally strong in Q1 2017 (+13%) and 6% growth is forecasted by the Street for the upcoming Q2 reporting season. While strength in Technology names (+4%) endures, the second quarter saw the strongest absolute performance from Health Care (+7%) and Industrial names (+5%).

EAFE equities continued from where they left off in the first quarter, outperforming both the S&P/TSX and S&P500 with a positive 3.3% return in Canadian dollar. The highlight of the quarter was clearly Emmanuel Macron's decisive victory in the French presidential election, eliminating one of the biggest political risk in the eurozone.

Highlights

Equities are progressing higher with below average volatility. This has been the case for some time despite President Trump's inability to enact significant changes.

Fixed Income Markets

Fixed income markets remained volatile during the second quarter of 2017 as bond yields declined early in the quarter, hitting year-to-date lows and then rose sharply in mid-June. The rise in global yields late in the quarter was the result of strengthening economic data as well as a dramatic change in sentiment to remove stimulus by almost all the major central bankers, including the US Federal Reserve, European Central Bank (ECB), Bank of England and Bank of Canada (BoC). Most importantly and the most dramatic shift in sentiment was from the Bank of Canada who indicated a policy change to a hawkish stance from a previously dovish stance, bringing forth the likelihood of imminent rate hikes into the Canadian yield curve. This reversal in policy shocked the front end of the Canadian yield curve with two and five-year bond yields rising dramatically. Canadian long bond yields failed to join the rise in global rates as weaker oil and inflation data supported sentiment in the long end of the curve.

Despite strengthening labour markets and improving economic outlook, inflation data remains weak but at positive levels. Central bankers now seem to be regarding this weakness in inflation as transitory in nature and not a reason for hesitating in their path towards policy normalization and are expected to proceed with their removal of policy stimulus measures. Going forward, The Bank of Canada is now expected to implement two rate hikes this year, with one in July and one in the fourth quarter of 2017.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2017

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	-1.1	2.7	8.7	5.3	5.3	8.5	8.9
Multi-Index	-1.7	3.3	8.5	5.5	6.2	8.9	8.9
Canadian Dividend Fund	0.2	-0.7	10.8	7.3	2.0	8.8	9.6
S&P / TSX Index	-0.8	0.7	11.1	5.3	3.1	9.0	8.7
U.S. Equity Fund (\$CAN)	-1.8	2.8	13.8	6.1	11.3	16.8	17.4
S&P 500 Index (\$ CAN)	-3.3	5.9	17.9	12.9	17.1	19.2	20.3
Money Market Fund	0.0	0.2	0.4	0.4	0.5	0.6	0.6
SCM 91 Day T-Bills	0.0	0.2	0.5	0.5	0.6	0.7	0.8
Canadian Equity Fund	0.2	-1.2	11.1	6.5	-0.6	7.5	7.6
S&P / TSX Index	-0.8	0.7	11.1	5.3	3.1	9.0	8.7
Fixed Income Fund	-0.9	2.7	1.2	3.0	3.9	4.4	3.6
SCM Universe Bond Index	-1.2	2.4	0.0	2.6	3.8	4.2	3.3
Growth Portfolio	-1.6	3.0	10.6	7.2	6.4	11.6	12.9
Multi-Index	-1.9	3.6	13.9	6.8	6.7	11.3	11.8
Balanced Growth Portfolio	-1.4	2.8	8.2	5.7	5.5	9.9	10.8
Multi-Index	-1.7	3.2	10.5	5.8	5.9	9.5	9.7
Balanced Portfolio	-1.2	2.8	6.9	5.0	5.4	8.4	8.7
Multi-Index	-1.5	2.9	6.9	4.7	5.2	7.7	7.5
Conservative Portfolio	-0.9	2.5	4.9	4.4	4.5	6.5	6.2
Multi-Index	-1.3	2.6	3.4	3.6	4.4	5.8	5.3
Canadian Small Capitalization Equity Fund	0.2	-4.9	10.2	11.4	1.7	11.1	12.1
BMO NB Small Cap Weighted Index	0.5	-4.1	3.8	6.7	-1.6	6.7	5.1
Momentum Fund	-2.7	-6.3	-4.2	10.7	3.8	9.4	10.6
S&P / TSX Index	-0.8	0.7	11.1	5.3	3.1	9.0	8.7
FIDELITY FUNDS							
Canadian Opportunities Fund	-1.3	1.8	9.1	7.9	9.0	11.5	12.1
S&P / TSX Small and Mid Cap Combined Index	0.6	1.1	7.3	3.8	0.3	7.0	7.0
True North Fund	-1.0	1.8	8.9	5.7	6.8	11.1	12.6
S&P / TSX Index	-0.8	0.7	11.1	5.3	3.1	9.0	8.7
International Growth Fund	-4.1	16.1	18.0	8.8	12.7	15.0	15.7
MSCI EAFE Index	-4.0	10.2	20.3	6.0	8.1	12.0	14.1
Europe Fund	-4.5	13.2	21.6	4.6	6.8	11.6	14.1
MSCI Europe Index	-4.9	11.7	21.1	5.8	6.6	12.1	14.2
American Disciplined Equity Fund	-3.9	5.8	16.7	7.6	15.1	18.2	19.3
S&P 500 Index (\$CAN)	-3.3	5.9	17.9	12.9	17.1	19.2	20.3
NorthStar Fund	-2.9	3.1	7.9	6.5	11.7	15.9	19.3
MSCI World Index	-3.5	7.2	18.2	9.3	12.4	15.5	16.9
Monthly Income Fund	-0.8	2.5	5.4	6.1	6.4	8.2	8.9
Multi-Index	-1.7	3.3	8.5	5.5	6.2	8.9	8.9
Canadian Asset Allocation Fund	-1.7	2.0	5.8	5.0	4.9	8.8	8.5
Multi-Index	-1.7	3.3	8.5	5.5	6.2	8.9	8.9
Far East Fund	-1.6	23.4	24.2	9.1	15.2	15.8	15.3
MSCI AC FE ex Jap (G)	-2.0	19.3	28.2	8.2	12.6	13.7	13.6

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Gross returns as of June 30, 2017

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
CI FUNDS							
Harbour Growth & Income Fund	-2.0	0.7	3.1	4.8	4.0	7.6	7.9
Multi-Index	-1.7	3.3	8.5	5.5	6.2	8.9	8.9
Synergy American Fund	-3.3	5.1	15.8	8.8	12.5	17.2	18.4
S&P 500 Index (\$CAN)	-3.3	5.9	17.9	12.9	17.1	19.2	20.3
Global Managers Corporate Class Fund	-2.7	6.9	16.8	8.7	11.2	13.9	15.3
MSCI World Index	-3.5	7.2	18.2	9.3	12.4	15.5	16.9
Signature Canadian Bond Fund	-1.6	2.0	-0.1	2.8	4.0	4.6	3.9
SCM Universe Bond Index	-1.2	2.4	0.0	2.6	3.8	4.2	3.3
Signature High Income Fund	-0.9	3.3	9.6	4.4	4.7	7.5	8.0
Multi-Index	-1.7	3.3	8.5	5.5	6.2	8.9	8.9
American Value Fund	-3.5	5.4	19.9	10.2	15.4	17.5	18.8
S&P 500 Index (\$CAN)	-3.3	5.9	17.9	12.9	17.1	19.2	20.3
Synergy Global Corporate Class Fund	-2.9	6.6	18.3	7.1	11.2	15.4	17.7
MSCI World Index	-3.5	7.2	18.2	9.3	12.4	15.5	16.9
Global Small Companies Fund	-2.9	5.4	19.0	8.4	11.7	15.5	17.9
MSCI World Index	-3.5	7.2	18.2	9.3	12.4	15.5	16.9
Cambridge Canadian Asset Allocation Fund	-1.7	2.1	8.4	6.1	7.2	9.6	11.0
60% S&P/TSX, 40% Dex Universe Bond Total Return	-0.9	1.4	6.6	4.3	3.5	7.1	6.6
Signature Diversified Yield II Fund	-0.9	4.9	11.2	5.1	6.4	8.3	9.2
40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index	-2.6	4.3	8.0	7.7	7.7	9.8	11.0
AGF FUNDS							
Dividend Income Fund	-0.8	2.3	11.8	11.2	5.0	10.5	9.8
S&P / TSX 60 Index	-1.2	0.6	12.4	5.8	4.1	9.7	9.4
Total Return Bond Fund	-1.0	4.2	7.9	5.5	5.4	7.0	6.8
Multi-Index	-4.0	1.7	6.7	8.4	10.1	10.8	10.4
Emerging Markets Fund	-2.3	14.9	21.8	8.1	8.2	8.4	7.7
MSCI Emerging markets Free Index	-3.0	14.4	24.5	6.6	8.2	10.2	9.5
Global Resources Class Fund	-5.9	-17.6	-7.6	-8.2	-15.0	-3.3	-2.8
60% MSCI World Energy Index/40% MSCI World Materials Index	-4.1	-5.4	9.1	3.0	0.0	7.0	7.6