

# Financial and Economic Notes

July 2022 vol. 180

## Equity Markets

While spared in the first quarter because of its resource exposure, Canadian equities participated fully in the weakness of the second quarter alongside its global peers. Investors continued to price in some economic damage as central banks fight to reduce inflation. The S&P/TSX generated a -13.2% return for the second quarter, with no perfect hiding spot as all sectors generated negative returns. The Energy sector (-2%) held in the best despite being economically sensitive as commodity prices remained strong on limited supply. More traditionally, defensive Utilities (-3%) and Consumer Staples (-6%) behaved better than average in the downdraft. Health Care (-50%), Technology (-31%) and Materials (-24%) were the worst performers. The weakness in Financials (-13%) was also painful given its importance in size within the benchmark in Canada.

US equities could not escape the broad weakness finishing the quarter down -16.1% in USD, dragged down by its heavy exposure to interest-sensitive technology/internet-focused companies. The strength of the US dollar versus the Loonie led to a -13.4% return in Canadian dollars. On a sectoral basis, the flight to safety was obvious with Consumer Staples (-5%), Utilities (-5%), and Health Care (-6%) all outperforming the market. Energy (-5%) also proved resilient given the strong commodity price.

International equities performed similarly, finishing the quarter down 11.7% in Canadian dollars. Growing concerns around energy security as the threat of Russia cutting the supply of natural gas to Europe remained top of mind for investors leading to further weakness despite already low valuations. Currency movement was a large drag (>4%) on the performance given the strength of the Canadian dollar relative to all major currencies in the index.

## Highlights

This quarter was painful for essentially all investors. Risk assets across most asset classes and geographies erased significant value for investment portfolios.

## Fixed Income Markets

Soaring inflation was also the main driver in fixed income markets and the rush by central banks to raise rates set the stage for the second quarter of 2022. During this period, Canada saw its inflation rate hit 7.7% Y/Y, the highest level in over 18 years. On June 1, the Bank of Canada hiked the overnight rate by 50 basis points to 1.50% with a message that the path of rate hikes will be driven by the economy and inflation, and the Governing Council is prepared to “act more forcefully if needed to meet its commitment to achieve the 2% inflation target”. Inflation in Q2 is tracking well above the Bank of Canada’s expectation of 6% and will likely come in at 7.5% overall for the quarter, resulting in increasing odds that the Bank will hike by at least 75 basis points at their July 13 meeting. Central banks around the world have underestimated inflation as recently as this quarter and are now playing catch up. Markets continue to respond dramatically to central bank communique and incoming economic data.

At quarter end, the futures market had priced in a Bank of Canada terminal overnight rate of 3.25%, which represents a rate that is 150 basis points above the endpoint rate of the Bank during the last hiking cycle, confirming that the challenges this hiking cycle are a serious concern. To date, economic growth in Canada has remained resilient in the face of rising interest rates, tight labour markets, supply bottlenecks and rising energy prices. Nonetheless, we expect Q2 economic growth to come in at 4%, which is below the Bank of Canada forecast of 6%, largely due to weakness in the housing sector. Overall growth in 2022 is expected to be 3.4% while the outlook for real GDP growth in 2023 has declined to 1.5% compared to the Bank’s most recent forecast of 3.2%. In contrast, the US economy lost momentum in Q1 due to inventory builds in the prior quarter but has regained some footing with Q2 real GDP growth expected to be positive at 1.5%.

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## Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2022

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
<b>ASSUMPTION / LOUISBOURG FUNDS</b>							
<b>Balanced Fund - RPP</b>	<b>-4.6</b>	<b>-11.7</b>	<b>-7.8</b>	<b>3.8</b>	<b>3.5</b>	<b>3.7</b>	<b>4.2</b>
Multi-Index	-5.5	-12.7	-8.4	3.0	3.4	4.0	4.5
<b>Canadian Dividend Fund</b>	<b>-8.8</b>	<b>-5.3</b>	<b>3.1</b>	<b>17.8</b>	<b>9.6</b>	<b>7.5</b>	<b>7.9</b>
S&P / TSX Index	-8.7	-9.9	-3.9	13.4	8.0	6.9	7.6
<b>U.S. Equity Fund (\$CAN)</b>	<b>-4.5</b>	<b>-11.9</b>	<b>-2.1</b>	<b>12.1</b>	<b>11.5</b>	<b>11.2</b>	<b>11.2</b>
S&P 500 Index (\$ CAN)	-6.4	-18.3	-6.9	9.2	10.1	10.0	11.2
<b>Money Market Fund</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.6</b>	<b>0.9</b>	<b>0.9</b>
SCM 91 Day T-Bills	0.0	0.3	0.4	0.3	0.7	0.9	0.9
<b>Fixed Income Fund</b>	<b>-2.1</b>	<b>-10.9</b>	<b>-10.2</b>	<b>-6.4</b>	<b>-2.2</b>	<b>-0.1</b>	<b>0.2</b>
SCM Universe Bond Index	-2.2	-12.2	-11.4	-7.0	-2.3	0.0	0.2
<b>Growth Portfolio</b>	<b>-7.5</b>	<b>-8.5</b>	<b>-3.0</b>	<b>12.6</b>	<b>9.3</b>	<b>7.4</b>	<b>8.0</b>
Multi-Index	-7.7	-13.0	-6.6	9.8	6.8	6.2	7.1
<b>Balanced Growth Portfolio</b>	<b>-6.4</b>	<b>-8.4</b>	<b>-3.9</b>	<b>9.2</b>	<b>7.0</b>	<b>5.8</b>	<b>6.4</b>
Multi-Index	-6.4	-12.4	-7.2	6.1	5.0	5.0	5.6
<b>Balanced Portfolio</b>	<b>-5.2</b>	<b>-8.7</b>	<b>-5.3</b>	<b>5.8</b>	<b>4.7</b>	<b>4.2</b>	<b>4.6</b>
Multi-Index	-5.0	-12.1	-8.4	1.8	2.7	3.4	3.9
<b>Conservative Portfolio</b>	<b>-3.8</b>	<b>-8.9</b>	<b>-5.9</b>	<b>3.5</b>	<b>2.5</b>	<b>2.3</b>	<b>2.6</b>
Multi-Index	-3.5	-11.9	-9.6	-2.5	0.3	1.8	2.1
<b>Canadian Small Capitalization Equity Fund</b>	<b>-9.2</b>	<b>-6.8</b>	<b>-3.2</b>	<b>28.4</b>	<b>16.0</b>	<b>7.9</b>	<b>6.6</b>
BMO NB Small Cap Weighted Index	-13.4	-14.2	-13.8	16.6	6.9	2.9	3.4
<b>SmartSeries Income Fund</b>	<b>-3.7</b>	<b>-8.7</b>	<b>-5.7</b>	<b>4.7</b>	<b>3.4</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-3.7	-12.6	-9.8	-2.0	0.8	n/a	n/a
<b>SmartSeries 2020 Fund</b>	<b>-4.2</b>	<b>-9.0</b>	<b>-5.2</b>	<b>6.2</b>	<b>4.4</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-4.3	-12.9	-9.2	0.5	2.2	n/a	n/a
<b>SmartSeries 2025 Fund</b>	<b>-4.8</b>	<b>-9.5</b>	<b>-5.0</b>	<b>7.4</b>	<b>5.2</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-5.1	-13.3	-8.8	2.4	3.4	n/a	n/a
<b>SmartSeries 2030 Fund</b>	<b>-5.1</b>	<b>-9.7</b>	<b>-4.8</b>	<b>8.1</b>	<b>5.6</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-5.4	-13.5	-8.6	3.5	4.0	n/a	n/a
<b>SmartSeries 2035 Fund</b>	<b>-5.6</b>	<b>-10.1</b>	<b>-4.6</b>	<b>9.1</b>	<b>6.3</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-5.9	-13.9	-8.4	5.1	4.9	n/a	n/a
<b>SmartSeries 2040 Fund</b>	<b>-6.0</b>	<b>-10.4</b>	<b>-4.5</b>	<b>9.9</b>	<b>6.7</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-6.4	-14.3	-8.1	6.4	5.7	n/a	n/a
<b>SmartSeries 2045 Fund</b>	<b>-6.2</b>	<b>-10.6</b>	<b>-4.3</b>	<b>10.4</b>	<b>7.1</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-6.7	-14.4	-8.0	7.2	6.1	n/a	n/a
<b>SmartSeries 2050 Fund</b>	<b>-6.5</b>	<b>-10.9</b>	<b>-4.3</b>	<b>10.9</b>	<b>7.2</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-7.0	-14.7	-7.9	8.0	6.6	n/a	n/a
<b>SmartSeries 2055 Fund</b>	<b>-6.7</b>	<b>-11.1</b>	<b>-4.3</b>	<b>11.2</b>	<b>7.3</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-7.2	-14.9	-7.9	8.5	6.8	n/a	n/a
<b>Momentum Fund</b>	<b>-15.5</b>	<b>10.5</b>	<b>-0.5</b>	<b>15.6</b>	<b>22.8</b>	<b>13.6</b>	<b>16.1</b>
S&P / TSX Index	-8.7	-9.9	-3.9	13.4	8.0	6.9	7.6
<b>Preferred Share Fund</b>	<b>-5.0</b>	<b>-9.1</b>	<b>-4.1</b>	<b>24.8</b>	<b>9.9</b>	<b>2.9</b>	<b>n/a</b>
S&P/TSX Preferred Share (TXPR) Index	-5.3	-9.9	-5.9	13.4	6.1	2.6	n/a

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
<b>FIDELITY FUNDS</b>							
<b>Canadian Opportunities Fund</b>	<b>-7.1</b>	<b>-11.7</b>	<b>-6.6</b>	<b>16.4</b>	<b>15.3</b>	<b>14.5</b>	<b>12.9</b>
S&P / TSX Small and Mid Cap Combined Index	-10.2	-10.9	-9.1	10.9	5.3	4.1	4.7
<b>True North Fund</b>	<b>-7.2</b>	<b>-9.3</b>	<b>-1.6</b>	<b>14.2</b>	<b>10.9</b>	<b>9.6</b>	<b>9.6</b>
S&P / TSX Index	-8.7	-9.9	-3.9	13.4	8.0	6.9	7.6
<b>International Growth Fund</b>	<b>-7.1</b>	<b>-25.7</b>	<b>-19.7</b>	<b>-1.5</b>	<b>3.2</b>	<b>4.4</b>	<b>5.5</b>
Overseas Blend	-6.8	-25.3	-20.6	-2.8	0.9	1.5	3.3
<b>Europe Fund</b>	<b>-6.8</b>	<b>-18.3</b>	<b>-13.3</b>	<b>0.9</b>	<b>-1.2</b>	<b>-0.6</b>	<b>1.2</b>
MSCI Europe Index	-8.2	-19.1	-14.2	2.7	0.8	0.9	2.0
<b>American Disciplined Equity Fund</b>	<b>-6.9</b>	<b>-20.1</b>	<b>-9.4</b>	<b>7.9</b>	<b>10.1</b>	<b>9.6</b>	<b>10.8</b>
S&P 500 Index (\$CAN)	-6.4	-18.3	-6.9	9.2	10.1	10.0	11.2
<b>NorthStar Fund</b>	<b>-5.0</b>	<b>-13.5</b>	<b>-12.9</b>	<b>6.7</b>	<b>7.8</b>	<b>4.7</b>	<b>4.8</b>
MSCI AC World	-6.6	-18.5	-12.2	5.4	5.8	5.6	6.9
<b>Monthly Income Fund</b>	<b>-4.0</b>	<b>-6.6</b>	<b>-2.6</b>	<b>7.2</b>	<b>5.8</b>	<b>6.3</b>	<b>5.7</b>
Monthly Income Blend	-5.5	-11.8	-7.8	3.8	3.4	4.6	4.6
<b>Canadian Asset Allocation Fund</b>	<b>-6.4</b>	<b>-10.5</b>	<b>-4.4</b>	<b>8.3</b>	<b>6.9</b>	<b>6.8</b>	<b>7.1</b>
Can Asset Alloc Blend	-6.7	-10.5	-6.0	6.6	4.9	4.9	5.3
<b>Far East Fund</b>	<b>3.1</b>	<b>-23.5</b>	<b>-35.3</b>	<b>-8.6</b>	<b>-2.3</b>	<b>-1.4</b>	<b>2.2</b>
MSCI AC FE ex Jap (G)	-2.1	-14.5	-24.3	-2.5	1.1	0.4	2.6
<b>Emerging Market Fund</b>	<b>-3.2</b>	<b>-18.5</b>	<b>-24.4</b>	<b>1.6</b>	<b>3.7</b>	<b>4.2</b>	<b>n/a</b>
MSCI Emerging Markets (G)	-4.7	-15.7	-21.9	0.2	0.5	0.6	n/a
<b>NorthStar Balanced Fund</b>	<b>-3.3</b>	<b>-11.2</b>	<b>-9.2</b>	<b>2.0</b>	<b>4.4</b>	<b>3.9</b>	<b>n/a</b>
Northstar Balanced Blend	-3.3	-13.8	-9.5	-1.2	2.4	3.4	n/a
<b>CI FUNDS</b>							
<b>Signature Corporate Bond Fund</b>	<b>-2.7</b>	<b>-10.5</b>	<b>-9.1</b>	<b>1.0</b>	<b>1.1</b>	<b>2.6</b>	<b>n/a</b>
Multi-Index	-4.2	-12.5	-11.4	-2.2	-0.8	1.4	n/a
<b>Signature Canadian Bond Fund</b>	<b>-2.2</b>	<b>-11.6</b>	<b>-10.6</b>	<b>-5.6</b>	<b>-1.1</b>	<b>1.1</b>	<b>1.0</b>
SCM Universe Bond Index	-2.2	-12.2	-11.4	-7.0	-2.3	0.0	0.2
<b>Signature High Income Fund</b>	<b>-5.6</b>	<b>-8.4</b>	<b>-1.3</b>	<b>11.0</b>	<b>5.9</b>	<b>6.7</b>	<b>5.8</b>
Multi-Index	-6.0	-9.3	-2.3	6.7	3.3	4.7	4.9
<b>American Value Fund</b>	<b>-5.8</b>	<b>-21.7</b>	<b>-10.1</b>	<b>11.4</b>	<b>7.7</b>	<b>8.1</b>	<b>9.1</b>
S&P 500 Index (\$CAN)	-6.6	-18.6	-7.2	9.2	10.0	10.0	11.1
<b>Cambridge Canadian Dividend Fund</b>	<b>-5.8</b>	<b>-7.0</b>	<b>0.4</b>	<b>21.0</b>	<b>9.7</b>	<b>9.6</b>	<b>n/a</b>
S&P/TSX Composite Total Return Index	-8.7	-9.9	-3.9	13.4	8.0	6.9	n/a
<b>Cambridge Canadian Asset Allocation Corp Fund</b>	<b>-4.7</b>	<b>-13.9</b>	<b>-10.4</b>	<b>2.1</b>	<b>2.1</b>	<b>3.1</b>	<b>3.1</b>
60% S&P/TSX, 40% Dex Universe Bond Total Return	-6.1	-10.7	-6.8	5.0	4.1	4.4	4.8
<b>Signature Global Resource Corp Class Fund</b>	<b>-15.8</b>	<b>9.5</b>	<b>21.1</b>	<b>35.5</b>	<b>16.8</b>	<b>5.2</b>	<b>n/a</b>
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	-13.4	8.3	15.9	20.2	12.6	7.7	n/a
<b>Signature Global Dividend Fund</b>	<b>-7.5</b>	<b>-9.7</b>	<b>0.6</b>	<b>14.8</b>	<b>7.5</b>	<b>7.1</b>	<b>n/a</b>
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	-5.4	-9.0	-3.6	7.0	3.8	5.0	n/a