



Financial and Economic Notes

July 2007 vol. 92



Highlights

- North American equity markets move lower
- Expect higher interest rates in July

Economic indicators

Bond prices fell for the second consecutive month as prospects of higher interest rates in Canada became an almost certainty. Bonds have now reported negative returns in four of the past six months.

Canadian economic news was somewhat disappointing in June with manufacturing shipments, wholesale sales, and retail sales all coming in weaker than expected. On the positive side, inflation for the month of May was much lower than anticipated which provided some relief to markets in general.

The Bank of Canada (BOC) continued to hint that it is not comfortable with the diminishing spare capacity and the stronger economic data and higher inflation numbers reported earlier this year. We expect the BOC to increase rates by 25 bps at its July 10th meeting despite the negative impact that the stronger Canadian dollar is having on economic growth. With respect to the Canadian dollar, we believe that the dollar has gotten ahead of itself and that significantly more appreciation in the near term seems unlikely.

Financial markets

For the most part June was a volatile month for North American financial markets. In Canada, the S&P/TSX Index recorded its first monthly loss of the year as fears over higher interest rates pushed interest sensitive sectors lower while the energy and basic material sectors fell on unsettled commodity prices. U.S. markets were also lower due to inflation concerns and uncertainty over the extent of the fallout from the collapse of the sub-prime mortgage sector.

The U.S. economy continues to remain below potential growth but no recession is expected. The Fund Managers believe the U.S. is in a mid-cycle slowdown but the economy is still growing in the range of 2% to 2.5%. Because the U.S. remains at below potential GDP, inflation should continue to ease somewhat as it did recently.

At the conclusion of June's Asset Mix Committee meeting the decision was made to reduce bonds by 2% and increase Canadian and EAFE equities. It looks like the declining trend in interest rates over the past two decades is now over and equities represent the best opportunity for now. The Fund Managers will look to sell more bonds in the future but believe it would be prudent to wait for the appropriate opportunity, given that the U.S. economy is still shaky and the upcoming economic data may be less rosy than expected.

The performance of Major Markets decreased in value during the month of June. The SCM Universe Bond indicates a return of -0.3%, the S&P/TSX -0.8%, the S&P 500 -2.3% and the MSCI EAFE had a return of -0.5.

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Assumption Life
Financial Services

Financial and Economic Notes

Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2007

FUNDS	1 MTH %	YTD* %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION LIFE FUNDS							
Assumption Life Balanced Fund - RPP	-0.5	2.2	12.3	9.1	10.5	11.6	s/o
Multi-Index	-0.7	2.7	13.9	11.1	11.0	12.0	s/o
Canadian Equity Fund	0.4	7.0	19.2	16.5	18.1	18.7	14.3
S&P / TSX Index	-0.8	9.1	22.7	21.2	20.1	21.2	16.6
U.S. Equity Fund (\$CAN)	-1.6	-2.3	14.0	5.3	3.7	6.3	1.8
S&P 500 Index (\$CAN)	-2.3	-2.4	15.0	6.6	3.4	6.8	3.1
MONTRUSCO BOLTON FUNDS							
Canadian Equity+ Fund	0.5	6.4	16.5	15.4	18.2	20.7	17.0
S&P / TSX Index	-0.8	9.1	22.7	21.2	20.1	21.2	16.6
Small Cap. Canadian Equity Fund	0.7	12.5	21.5	20.9	23.1	25.3	21.6
BMO NB Small Cap Weighted Index	-0.7	12.7	26.9	26.5	21.6	26.2	19.5
TSX 100 Momentum	2.7	16.3	36.7	33.6	36.6	37.7	26.9
S&P/TSX Index	-0.8	9.1	22.7	21.2	20.1	21.1	16.8
E.A.F.E. Equity Fund (\$CAN)	-0.3	-0.6	13.9	9.5	8.0	11.9	5.2
MSCI EAFE Index	-0.5	1.1	21.1	18.1	13.2	17.4	9.6
Global Equity Fund (\$CAN)	-1.0	-1.7	12.2	6.4	6.3	9.7	4.2
MSCI World Index	-1.4	-0.4	17.9	12.0	8.1	11.5	6.2
Fixed Income Fund (Can. bonds)	-0.3	-0.8	4.4	1.8	5.0	4.8	5.9
SCM Universe Bond Index	-0.3	-0.8	4.8	2.0	5.2	4.8	6.0
T-Max Fund (money market)	0.3	2.0	4.1	3.6	3.2	3.1	3.1
SCM 91 Day T-Bills	0.3	2.1	4.3	3.7	3.3	3.1	3.1
FIDELITY FUNDS							
Canadian Opportunities Fund	0.4	11.1	20.4	20.1	17.8	s/o	s/o
S&P / TSX Small and Mid Cap Combined Index	-2.0	9.4	17.4	17.9	16.2	s/o	s/o
True North Fund	0.2	11.1	30.5	24.7	23.3	s/o	s/o
S&P / TSX Index	-0.8	9.1	22.7	21.2	20.2	s/o	s/o
Overseas Fund	0.6	2.7	26.7	s/o	s/o	s/o	s/o
MSCI EAFE Index	-0.4	1.2	21.5	s/o	s/o	s/o	s/o
Focus Healthcare Fund	-2.2	-2.0	11.2	5.3	5.4	s/o	s/o
Goldman Sachs HealthCare Index	s/o	s/o	s/o	s/o	s/o	s/o	s/o
Focus Technology Fund	2.8	2.7	22.1	12.2	4.7	s/o	s/o
Goldman Sachs Technology Index	s/o	s/o	s/o	s/o	s/o	s/o	s/o
Europe Fund	0.5	11.9	38.7	29.8	22.4	s/o	s/o
MSCI Europe Index	-0.5	2.8	26.7	19.8	15.3	s/o	s/o
CI FUNDS							
Harbour Growth & Income Fund	-0.3	-0.3	14.8	16.4	17.1	s/o	s/o
Multi-Index	-0.7	2.7	13.9	11.1	11.0	s/o	s/o
Global Balanced Corporate Class	-0.5	-0.5	15.0	10.9	6.4	s/o	s/o
Multi-Index	-0.7	2.7	13.9	11.1	11.0	s/o	s/o
Synergy American Fund	-1.8	-1.8	s/o	s/o	s/o	s/o	s/o
S&P 500 Index (\$CAN)	-2.3	-2.4	s/o	s/o	s/o	s/o	s/o
Global Managers Corporate Class Fund	-0.8	-0.8	17.3	13.1	8.3	s/o	s/o
MSCI World Index	-1.4	-0.4	17.9	12.0	8.1	s/o	s/o
Canadian Bond Fund	-0.3	-0.3	5.1	2.7	5.4	s/o	s/o
SCM Universe Bond Index	-0.3	-0.8	4.8	2.0	5.2	s/o	s/o