



# Financial and Economic Notes

July 2008 vol. 104



## Highlights

- Markets correct in June on economic and inflation fears
- Domestic demand in Canada remains strong

### Economic indicators

In Canada, the first quarter's negative GDP should be overlooked as it was mainly an inventory adjustment; we should consider our strong domestic demand as a better indicator of our economy. The U.S. economy is still weak but has shown some improvement and should manage to post a positive GDP in 1H08. The rest of the world seems to be decelerating but, after all, many data still point to good growth. The resilient global economy combined with this year's North American rate cuts should support the recovery and future growth.

Source: Bloomberg

In line with these positive developments, Central Banks have indicated that rate cuts may be over. However, the Fund Managers expect them to be very prudent before significantly raising their rates, despite the recent inflation risk. Actually, they expect they will let the economy stabilize on firmer ground. They do not anticipate really tough action or strong measures.

The inflation risk and high oil prices are increasingly making headlines and seem to have weighted on risky assets lately. Higher energy costs now jeopardize the recovery and, if they keep rising this way, could trigger a recession. However, current inflation fears are rooted in the food and energy sectors. They are completely absent from core measures and show no contagion to wages. This current episode is thus cyclical, not structural. Also, food weighs much more than energy in CPI calculations, and we believe that food prices will stabilize and inflation pressures will subside over the next year.

### Financial markets

A current valuation analysis shows the North American equity market trading at a P/E of 16 times, trailing earnings per share. On a forward basis the S&P is more attractive with a P/E of 13, while the TSX is trading at 14 times. Europe is the least expensive at 10 times and Japan is the most expensive at 18 times. Generally, the Fund Managers would qualify equities as fairly attractive on a historical basis and as very attractive should expected earnings be realized. They would also qualify them as significantly attractive if they look at the current dividend level in relation to bond yield. Real rates are near zero and even negative in the U.S. Short term bond yield is now on a positive slope with the Central Bank rate, which is typically a positive sign that equity return is moving forward.

Margins may compress from higher costs but the Fund Managers believe that good productivity and share buy backs will offset the negative impact. For Canada, the upside surprise from the energy sector should greatly compensate. Regarding fixed income, nominal yield is almost at a record low. Also, real yield at 1.4% versus a neutral level of 2.5%, suggests very little potential for appreciation. In view of all this, they favour equity versus fixed income.

All major equity markets decreased in value during the month of June. The DEX Universe Bond index had a return of -0.05%, the S&P/TSX -1.41%, the S&P500 -6.18% and the MSCI EAFE -5.93%.



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

Gross returns as of June 30, 2008

FUNDS	1 MTH %	YTD* %	1 year %	2 years %	3 years %	4 years %	5 years %
<b>ASSUMPTION LIFE FUNDS</b>							
<b>Assumption Life Balanced Fund - RPP</b>	<b>-1.6</b>	<b>-0.6</b>	<b>-0.6</b>	<b>5.6</b>	<b>5.8</b>	<b>7.6</b>	<b>9.0</b>
Multi-Index	-2.0	0.8	0.9	7.2	7.6	8.3	9.7
<b>Canadian Equity Fund</b>	<b>-2.4</b>	<b>-1.6</b>	<b>3.9</b>	<b>11.3</b>	<b>12.2</b>	<b>14.4</b>	<b>15.6</b>
S&P / TSX Index	-1.4	6.0	6.8	14.5	16.2	16.7	18.2
<b>U.S. Equity Fund (\$CAN)</b>	<b>-5.4</b>	<b>-9.6</b>	<b>-11.0</b>	<b>0.7</b>	<b>-0.5</b>	<b>-0.2</b>	<b>2.6</b>
S&P 500 Index (\$ CAN)	-8.4	-11.9	-13.1	2.4	4.4	4.9	7.6
<b>Money Market Fund</b>	<b>0.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
SCM 91 Day T-Bills	0.3	n/a	n/a	n/a	n/a	n/a	n/a
<b>MONTRUSCO BOLTON FUNDS</b>							
<b>Canadian Equity+ Fund</b>	<b>-1.4</b>	<b>-2.2</b>	<b>3.0</b>	<b>9.6</b>	<b>11.1</b>	<b>14.2</b>	<b>17.0</b>
S&P / TSX Index	-1.4	6.0	6.8	14.5	16.2	16.7	18.2
<b>Small Cap. Canadian Equity Fund</b>	<b>-1.3</b>	<b>-4.1</b>	<b>0</b>	<b>10.2</b>	<b>13.5</b>	<b>16.9</b>	<b>19.8</b>
BMO NB Small Cap Weighted Index	-3.1	-6.5	-16.2	3.2	10.3	10.8	16.3
<b>TSX 100 Momentum</b>	<b>9.3</b>	<b>8.6</b>	<b>22.3</b>	<b>29.3</b>	<b>29.7</b>	<b>32.9</b>	<b>34.5</b>
S&P / TSX Index	-1.4	6.0	6.8	14.5	16.2	16.7	18.2
<b>E.A.F.E. Equity Fund (CAN\$)</b>	<b>2.1</b>	<b>1.1</b>	<b>-7.5</b>	<b>2.7</b>	<b>3.5</b>	<b>3.9</b>	<b>7.7</b>
MSCI EAFE Index	-6.3	-8.5	-14.8	1.8	6.0	5.4	10.1
<b>Global Equity Fund (CAN\$)</b>	<b>-5.2</b>	<b>11.2</b>	<b>-14.1</b>	<b>-1.8</b>	<b>-0.9</b>	<b>0.8</b>	<b>4.4</b>
MSCI World Index	-5.7	7.8	-14.4	0.4	2.4	1.9	5.8
<b>Fixed Income Fund (Can. bonds)</b>	<b>-0.1</b>	<b>1.6</b>	<b>4.8</b>	<b>4.6</b>	<b>2.8</b>	<b>4.9</b>	<b>4.8</b>
SCM Universe Bond Index	-0.1	2.2	6.8	5.8	3.6	5.6	5.2
<b>FIDELITY FUNDS</b>							
<b>Canadian Opportunities Fund</b>	<b>-0.5</b>	<b>1.6</b>	<b>5.0</b>	<b>12.4</b>	<b>14.8</b>	<b>14.4</b>	<b>18.7</b>
S&P / TSX Small and Mid Cap Combined Index	-1.2	-0.5	-3.9	6.2	10.1	10.8	14.7
<b>True North Fund</b>	<b>-0.9</b>	<b>7.2</b>	<b>11.2</b>	<b>20.5</b>	<b>20.0</b>	<b>20.2</b>	<b>20.9</b>
S&P / TSX Index	-1.4	6.0	6.8	14.5	16.2	16.7	18.2
<b>Overseas Fund</b>	<b>-4.6</b>	<b>-12.2</b>	<b>-19.4</b>	<b>1.0</b>	<b>6.7</b>	<b>5.6</b>	<b>10.4</b>
MSCI EAFE Index	-6.3	-8.5	-14.8	1.8	6.0	5.4	10.1
<b>Global Health Care Fund</b>	<b>0.3</b>	<b>-4.7</b>	<b>-7.4</b>	<b>1.5</b>	<b>0.9</b>	<b>2.0</b>	<b>3.1</b>
Goldman Sachs HealthCare Index	-0.9	-6.4	-12.5	-2.9	-2.1	-1.7	0.5
<b>Global Technology Fund</b>	<b>-7.1</b>	<b>-14.4</b>	<b>-15.0</b>	<b>1.9</b>	<b>2.3</b>	<b>-0.6</b>	<b>3.6</b>
Goldman Sachs Technology Index	-7.7	-9.7	-12.7	1.9	1.8	-1.0	4.4
<b>Europe Fund</b>	<b>-5.8</b>	<b>-1.5</b>	<b>6.8</b>	<b>21.7</b>	<b>21.7</b>	<b>18.3</b>	<b>20.2</b>
MSCI Europe Index	-6.8	-10.0	-15.4	3.5	6.7	6.7	10.5
<b>American Disciplined Equity Fund</b>	<b>-4.7</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
S&P 500 Index (\$CAN)	-8.4	n/a	n/a	n/a	n/a	n/a	n/a
<b>NorthStar Fund</b>	<b>-3.5</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
MSCI World Index	-5.7	n/a	n/a	n/a	n/a	n/a	n/a
<b>Monthly Income Fund</b>	<b>-0.9</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-2.0	n/a	n/a	n/a	n/a	n/a	n/a
<b>Canadian Asset Allocation Fund</b>	<b>-0.9</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-2.0	n/a	n/a	n/a	n/a	n/a	n/a



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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>-2.9</b>	<b>-2.9</b>	<b>3.6</b>	<b>9.1</b>	<b>11.9</b>	<b>13.5</b>	<b>13.8</b>
Multi-Index	-2.0	0.8	0.9	7.2	7.6	8.3	9.7
<b>Global Balanced Corporate Class</b>	<b>-5.3</b>	<b>-5.3</b>	<b>-11.1</b>	<b>1.1</b>	<b>3.0</b>	<b>1.7</b>	<b>6.0</b>
Multi-Index	-2.0	0.8	0.9	7.2	7.6	8.3	9.7
<b>Synergy American Fund</b>	<b>-4.6</b>	<b>-4.6</b>	<b>-8.2</b>	<b>2.7</b>	<b>3.8</b>	<b>4.8</b>	<b>7.3</b>
S&P 500 Index (\$CAN)	-8.4	-11.9	-13.1	2.4	4.4	4.9	7.6
<b>Global Managers Corporate Class Fund</b>	<b>-5.0</b>	<b>-5.0</b>	<b>-12.0</b>	<b>1.6</b>	<b>4.0</b>	<b>2.8</b>	<b>7.3</b>
MSCI World Index	-5.7	7.8	-14.4	0.4	2.4	1.9	5.8
<b>Canadian Bond Fund</b>	<b>0</b>	<b>0</b>	<b>6.6</b>	<b>5.8</b>	<b>4.0</b>	<b>5.7</b>	<b>5.1</b>
SCM Universe Bond Index	-0.1	2.2	6.8	5.8	3.6	5.6	5.2
<b>Signature High Income</b>	<b>-0.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-2.0	n/a	n/a	n/a	n/a	n/a	n/a
<b>American Value</b>	<b>-4.6</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
S&P 500 Index (\$CAN)	-8.4	n/a	n/a	n/a	n/a	n/a	n/a
<b>Synergy Global Corporate Class</b>	<b>-4.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
MSCI World Index	-5.7	n/a	n/a	n/a	n/a	n/a	n/a
<b>Global Small Companies</b>	<b>-4.1</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
MSCI World Index	-5.7	n/a	n/a	n/a	n/a	n/a	n/a
<b>AGF FUNDS</b>							
<b>Dividend Income Fund</b>	<b>-1.5</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
S&P / TSX Index	-1.4	n/a	n/a	n/a	n/a	n/a	n/a
<b>US Value Class</b>	<b>-14.1</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
S&P 500 Index (\$CAN)	-8.4	n/a	n/a	n/a	n/a	n/a	n/a
<b>Global Financial Services Class</b>	<b>-12.4</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Globe Financial Service Peer Index	-12.1	n/a	n/a	n/a	n/a	n/a	n/a
<b>International Stock Class</b>	<b>-8.1</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
MSCI EAFE Index	-6.3	n/a	n/a	n/a	n/a	n/a	n/a