

Financial and Economic Notes

July 2024 vol. 188

Equity Markets

Canadian equities took a breather in the second quarter and were slightly down for the period. The S&P/TSX, with a -0.5% return, also experienced poor breadth with only four of eleven sectors contributing positively. The strongest performance was generated by Materials (+7%) as commodity prices continued to be strong. Consumer Staples (+4%) was the other sector that was able to generate meaningful gains. Health Care (-19%) performed the worse but its contribution is immaterial given its small size. Technology (-6%) and Real Estate (-6%) also stood out negatively. Notably, all the other sectors were relatively flat, either marginally up or down during the period.

Pick-and-shovel AI enablers continued to report strong demand, exceeding expectations and boosting investor's enthusiasm. US mega-caps once again proved to be the main beneficiaries, with market breadth year-to-date on pace to hit the lowest annual level in decades, with only about 25% of stocks outperforming the index. Overall, US equities continued to lead, up 4.3% in USD, helped by their strong exposure to technology and semiconductors. The strength of the US dollar against the loonie also helped returns, with US equities finishing the quarter up 5.5% in CAD. On a sectoral basis, the rally was driven by two sectors: Information Technology (+14%) and Communication Services (+9%).

While the upcoming US presidential election has attracted significant attention, the outcome of the European parliamentary election had the biggest impact so far. The results showed that the populism movement gained momentum, leading President Macron to announce a snap election in France. This caused market concerns around the potential outcome, resulting in a significant pullback in French equities in June. Overall, International equities finished up 0.7%, lagging their US peers given the lower exposure to "pick-and-shovel" AI enablers. The weakness of the Japanese Yen weighed on the performance for Canadian investors. On a sectoral basis, Health Care (+6%) and Financials (+5%) were the main outperformers. Health Care benefited from a rotation into a flight to safety, with large pharmaceutical companies outperforming, while Financials continued to benefit from better net interest income (NII) due to higher interest rates.

Highlights

The year kicked off on a strong note as investors essentially bought all risk assets.

Fixed Income Markets

The dramatic rate tightening cycle that began in February 2022 finally came to an end with a 25-basis point rate cut by the Bank of Canada in early June. The cut in the Bank of Canada policy rate to 4.75% was symbolic in marking the conclusion of interest rate increases, representing a total of 475 basis points of rate hikes by the central bank over a period of 18 months. This quarter, central banks remained cautious as pricing pressures remain elevated, but have acknowledged that higher interest rates have taken hold based on weakening economic indicators and have greater confidence that declines in wages and prices will follow. The challenge for the central bank has now turned toward estimating the timing of the path in policy rate cuts so that the slack in the economy continues to lower wages and prices while at the same time, lowering rates quickly enough that a recession or rapid rise in unemployment might be avoided. During the quarter, economic performance in the US and Canada converged, as GDP in Canada improved from an annualized 1.7% Q/Q in the first quarter to an estimate of 2% Q/Q annualized in the second quarter.

Economic data released over the quarter confirm that inflationary pressures are declining, but inflation remains above the 2% target. Central bankers have increasingly focused on leading indicators for signs of rising slack in the economy resulting in lower inflation and wage pressures. In Canada, May inflation data was higher than expected with headline CPI of 2.9% y/y, and respective core median and trim CPI measures of 2.8% y/y and 2.9% y/y. This represented a 0.2% increase in the inflation rate, compared to the prior month, resulting from a wide breadth of increases in mortgage interest and rent costs, air travel, services, and price increases in a few food categories.

Financial and Economic Notes

Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2024

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	0.8	4.1	9.8	10.8	4.2	7.3	6.3
Multi-Index	0.5	5.0	10.4	10.2	3.5	6.1	5.8
Canadian Dividend Fund	-0.5	6.3	16.0	15.8	11.4	16.8	12.0
S&P / TSX Index	-1.4	6.1	12.1	11.3	6.0	12.4	9.3
U.S. Equity Fund (\$CAN)	2.9	16.2	29.1	25.3	15.4	18.5	16.8
S&P 500 Index (\$ CAN)	4.0	19.6	28.8	25.7	13.7	17.2	16.1
Money Market Fund	0.4	2.4	4.8	3.8	2.6	2.0	1.9
SCM 91 Day T-Bills	0.4	2.6	5.2	4.4	3.1	2.3	2.2
Fixed Income Fund	1.1	-0.2	4.0	3.7	-1.2	-1.5	0.1
SCM Universe Bond Index	1.1	-0.4	3.7	3.4	-1.8	-1.9	-0.1
Growth Portfolio	0.2	9.3	16.3	15.4	8.9	14.0	11.7
Multi-Index	-0.2	9.3	15.9	15.4	7.5	12.5	10.2
Balanced Growth Portfolio	0.3	7.3	13.6	12.6	6.8	10.9	9.2
Multi-Index	0.1	7.1	13.0	12.6	5.5	9.3	7.9
Balanced Portfolio	0.5	5.7	11.5	9.9	4.5	7.8	6.8
Multi-Index	0.4	4.6	9.9	9.5	3.2	5.6	5.3
Conservative Portfolio	0.5	4.4	10.1	7.3	2.7	5.4	4.4
Multi-Index	0.8	2.2	6.8	6.5	0.8	1.9	2.7
Canadian Small Capitalization Equity Fund	2.8	10.0	19.2	17.1	9.9	22.6	16.4
BMO NB Small Cap Weighted Index	-1.9	8.8	14.4	9.8	1.3	13.1	8.1
SmartSeries Income Fund	0.7	5.7	11.9	8.8	3.8	6.7	5.5
Multi-Index	1.0	3.4	8.4	7.8	1.6	2.8	3.6
SmartSeries 2020 Fund	0.7	6.1	12.5	10.1	4.7	8.1	6.6
Multi-Index	1.0	4.2	9.4	9.0	2.6	4.7	4.9
SmartSeries 2025 Fund	0.8	7.2	14.2	12.3	6.2	9.8	8.0
Multi-Index	1.0	6.1	11.8	11.3	4.1	6.7	6.5
SmartSeries 2030 Fund	0.8	7.7	15.0	13.1	6.8	10.6	8.5
Multi-Index	1.0	7.0	12.9	12.2	4.8	7.8	7.2
SmartSeries 2035 Fund	0.8	8.3	16.0	14.5	7.7	11.8	9.5
Multi-Index	1.0	8.1	14.4	13.6	5.8	9.3	8.3
SmartSeries 2040 Fund	0.9	9.0	17.1	15.9	8.7	12.9	10.3
Multi-Index	0.9	9.3	16.0	15.1	6.8	10.7	9.4
SmartSeries 2045 Fund	0.9	9.5	17.7	16.7	9.3	13.5	10.8
Multi-Index	0.9	10.1	16.9	16.0	7.4	11.5	10.0
SmartSeries 2050 Fund	0.9	9.8	18.3	17.5	9.7	14.2	11.2
Multi-Index	0.9	10.7	17.7	16.7	7.8	12.3	10.5
SmartSeries 2055 Fund	1.0	10.1	18.8	18.2	10.2	14.7	11.5
Multi-Index	0.9	11.3	18.5	17.4	8.3	12.9	11.0
Momentum Fund	-2.1	14.1	10.0	8.9	5.6	12.2	17.0
S&P / TSX Index	-1.4	6.1	12.1	11.3	6.0	12.4	9.3
Preferred Share Fund	-0.4	15.7	26.1	7.8	3.7	15.9	9.0
S&P/TSX Preferred Share (TXPR) Index	0.0	14.2	20.8	4.8	1.1	9.0	5.6

Financial and Economic Notes

Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2024

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
FIDELITY FUNDS							
Canadian Opportunities Fund	-1.0	5.3	13.6	20.1	10.4	18.2	17.2
S&P / TSX Small and Mid Cap Combined Index	0.1	11.0	16.2	14.8	6.2	12.8	9.0
True North Fund	-0.6	7.3	13.8	13.5	8.2	13.8	11.9
S&P / TSX Index	-1.4	6.1	12.1	11.3	6.0	12.3	9.3
International Growth Fund	-0.5	10.3	16.5	20.9	5.5	9.1	10.0
Overseas Blend	-0.1	10.2	13.1	18.1	3.5	7.2	7.4
Europe Fund	-2.1	9.0	14.9	17.8	6.4	9.0	6.0
MSCI Europe Index	-1.9	9.8	15.5	20.1	7.4	11.1	8.1
American Disciplined Equity Fund	3.6	22.8	34.1	30.4	15.5	18.6	17.8
S&P 500 Index (\$CAN)	4.0	19.6	28.8	25.7	13.7	17.1	16.1
NorthStar Fund	0.5	12.8	21.6	20.9	8.4	13.6	12.8
MSCI AC World	2.6	15.5	23.4	21.5	9.0	13.2	11.8
Monthly Income Fund	0.0	4.7	9.9	8.1	4.4	7.7	6.7
Monthly Income Blend	0.7	5.4	11.0	9.2	3.2	6.5	5.7
Canadian Asset Allocation Fund	-0.9	5.2	11.3	11.7	6.1	10.0	8.8
Can Asset Alloc Blend	-0.7	4.1	9.6	9.0	3.7	7.8	6.5
Far East Fund	2.9	13.0	19.1	10.0	-7.9	0.3	2.4
MSCI AC FE ex Jap (G)	4.0	12.2	12.4	5.6	-5.5	1.5	2.9
Emerging Market Fund	2.7	13.9	18.6	14.2	-0.5	7.7	7.8
MSCI Emerging Markets (G)	4.4	11.7	16.8	10.7	-1.5	5.3	4.4
NorthStar Balanced Fund	0.8	8.0	14.3	14.0	5.7	7.8	8.2
Northstar Balanced Blend	2.0	8.6	14.4	12.6	4.7	5.5	6.3
CI FUNDS							
Signature Corporate Bond Fund	1.0	4.5	10.9	8.1	2.1	4.5	3.9
Multi-Index	0.9	1.5	7.4	6.4	0.3	2.2	2.1
Signature Canadian Bond Fund	1.2	0.3	5.0	4.5	-0.8	-0.7	1.1
SCM Universe Bond Index	1.1	-0.4	3.7	3.4	-1.8	-1.9	0.0
Signature High Income Fund	1.0	4.7	11.4	8.2	4.9	9.6	6.8
Multi-Index	-0.3	1.9	10.4	7.6	4.2	7.2	5.0
American Value Fund	7.3	25.7	39.2	30.4	15.2	20.5	16.3
S&P 500 Index (\$CAN)	4.0	19.0	28.6	25.8	13.7	17.2	16.1
Cambridge Canadian Dividend Fund	-0.8	5.5	11.1	10.1	6.8	15.4	9.9
S&P/TSX Composite Total Return Index	-1.4	6.1	12.1	11.3	6.0	12.3	9.3
Cambridge Canadian Asset Allocation Corp Fund	1.4	8.0	13.7	10.9	3.2	6.4	5.5
60% S&P/TSX, 40% Dex Universe Bond Total Return	-0.4	3.5	8.8	8.2	2.9	6.6	5.7
Signature Global Resource Corp Class Fund	-4.3	10.9	14.6	13.2	15.8	23.9	15.3
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	-4.2	14.1	18.1	12.4	13.5	16.2	12.5
Signature Global Dividend Fund	1.7	14.7	21.2	18.0	11.9	16.4	11.6
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	-0.4	7.4	13.2	11.8	6.4	9.4	6.9