

Financial and Economic Notes

July 2016 vol.156

Equity Markets

The Canadian equity market offered a nice repeat performance of the last quarter. A return of +5.1% in the second quarter brings the year-to-date performance of the S&P/TSX Composite to +9.8%. Similar to other regions, this market moved around alongside investor sentiment regarding the prospects of the UK leaving the European Union. What was unique to Canada to offset the Brexit impact was the recovery in commodity prices and resource stocks that we experienced during the period.

The S&P 500 index was relatively range-bound in the second quarter, a welcome respite from the volatile first quarter of the year. Of course this quarter ended with the UK referendum turmoil, causing the index to drop over 5% in just two days, only to recover most of those losses by the end of June. The index finished up 2.5% in USD for the period. Much like the relative stability we saw in the market, the Canadian dollar against the USD was little changed over the course of the quarter. In CAD terms, the S&P 500 returned 2.9%. Eight of the ten S&P 500 industry sectors finished positive for the quarter, with only Technology (-2.8%) and Consumer Discretionary (-0.9%) in the red. Leading the way was Energy (+11.6%), Telecom (+7.1%), Utilities (+6.8%), and Health Care (+6.3%). There were also solid returns from Consumer Staples (+4.6%), Materials (+3.7%), Financials (+2.1%), and Industrials (+1.4%). Value names continued to outperform growth/momentum names during the quarter.

In a relatively sober reaction for the equity markets following Brexit, the MSCI EAFE finished down -1.5% in US dollar terms for the quarter (-1.1% in CAD). At its worse point, two days after the vote, the market was down -8% in USD.

Highlights

Every quarter seems to center around a theme. Our Canadian perspective does make us uniquely sensitive to the general resource strength. Gold investing also seems to be making a comeback. Still, for this quarter, it was really Brexit that stole the show.

Fixed Income Markets

The unrelenting rally in fixed income assets continued in the second quarter of 2016 as Canadian bond yields declined to record lows. The months of April and May demonstrated a reasonably stable risk tone and orderly market, with data remaining fairly on track with the exception of an unexpected weaker US labour market report and some transitory weakening in Canadian economic data. Also adding to this positive tone early in the quarter was a rebound in oil as oversupply issues waned and dissipating concerns for slowing growth in China. The month of June, however, proved to be highly volatile as the Brexit outcome dominated and took the market by surprise, causing global bond yields to decline sharply.

On the central bank front, the European Central Bank (ECB) implemented an aggressive buying program of corporate bonds to directly spur growth and the US Federal Open Market Committee (FOMC) took a more cautious stance, moving away from imminent rate hikes and maintained their policy rate at 0.50%. The Bank of Canada (BOC) also remained on hold during the quarter, keeping their policy rate at 0.50%, while indicating that the rate is in line with the current environment and that they are in no hurry to cut rates because of some short term weakness in economic data.

Over the quarter, Canadian bonds yields declined and the yield curve flattened, led by a large decline in long-term bond yields. The decline in yields was primarily experienced during the month of June following the Brexit outcome which wasn't fully anticipated by the market. During the quarter, the Canadian two-year bond yield declined 2 basis points (bps) to 0.52% while five year yields declined 10bps to 0.57%. During the same period Canadian ten-year bond yields declined 16bps to 1.06% while thirty year Canada bonds outperformed the rest of the curve, declining 29bps to 1.71%.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2016

| FUNDS | 1 MTH % | YTD % | 1 year % | 2 years % | 3 years % | 4 years % | 5 years % |
|--|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| ASSUMPTION / LOUISBOURG FUNDS | | | | | | | |
| Balanced Fund - RPP | 0.0 | 2.2 | 2.1 | 3.6 | 8.4 | 8.9 | 6.8 |
| Multi-Index | -0.5 | 1.9 | 1.8 | 4.7 | 8.8 | 8.8 | 7.2 |
| Canadian Dividend Fund | -1.3 | 13.0 | 3.9 | -2.1 | 8.2 | 9.3 | 6.1 |
| S&P / TSX Index | 0.3 | 9.8 | -0.2 | -0.7 | 8.3 | 8.2 | 4.2 |
| U.S. Equity Fund (\$CAN) | -1.2 | -1.6 | -1.1 | 10.0 | 17.8 | 18.3 | 16.2 |
| S&P 500 Index (\$ CAN) | -0.5 | -2.9 | 8.2 | 16.7 | 19.7 | 20.9 | 19.0 |
| Money Market Fund | 0.0 | 0.2 | 0.4 | 0.6 | 0.6 | 0.7 | 0.7 |
| SCM 91 Day T-Bills | 0.1 | 0.3 | 0.5 | 0.7 | 0.8 | 0.8 | 0.9 |
| Canadian Equity Fund | -0.7 | 12.5 | 2.2 | -5.9 | 6.4 | 6.7 | 2.6 |
| S&P / TSX Index | 0.3 | 9.8 | -0.2 | -0.7 | 8.3 | 8.2 | 4.2 |
| Fixed Income Fund | 1.5 | 3.8 | 4.8 | 5.2 | 5.4 | 4.2 | 5.2 |
| SCM Universe Bond Index | 1.8 | 4.1 | 5.2 | 5.7 | 5.6 | 4.1 | 5.2 |
| Growth Portfolio | 1.4 | 5.9 | 3.9 | 4.4 | 11.9 | 13.4 | 9.1 |
| Multi-Index | -0.7 | 2.7 | 0.2 | 3.3 | 10.5 | 11.3 | 7.6 |
| Balanced Growth Portfolio | 0.9 | 4.8 | 3.3 | 4.2 | 10.5 | 11.5 | 8.2 |
| Multi-Index | -0.2 | 3.1 | 1.2 | 3.6 | 9.2 | 9.5 | 6.9 |
| Balanced Portfolio | 1.0 | 3.9 | 3.1 | 4.6 | 8.9 | 9.2 | 7.4 |
| Multi-Index | 0.5 | 3.4 | 2.5 | 4.3 | 7.9 | 7.7 | 6.3 |
| Conservative Portfolio | 0.7 | 3.6 | 3.9 | 4.3 | 7.0 | 6.6 | 6.2 |
| Multi-Index | 1.1 | 3.6 | 3.7 | 4.8 | 6.6 | 5.8 | 5.6 |
| Canadian Small Capitalization Equity Fund | 4.1 | 23.1 | 12.6 | -2.3 | 11.3 | 12.5 | 6.3 |
| BMO NB Small Cap Weighted Index | 5.3 | 28.0 | 9.8 | -4.2 | 7.7 | 5.5 | -0.1 |
| Momentum Fund | 19.7 | 37.7 | 27.8 | 8.1 | 14.4 | 14.6 | 6.4 |
| S&P / TSX Index | 0.3 | 9.8 | -0.2 | -0.7 | 8.3 | 8.2 | 4.2 |
| FIDELITY FUNDS | | | | | | | |
| Canadian Opportunities Fund | 4.1 | 19.0 | 6.7 | 8.9 | 12.3 | 12.8 | 9.1 |
| S&P / TSX Small and Mid Cap Combined Index | 1.5 | 13.6 | 0.4 | -2.9 | 6.9 | 6.9 | 3.4 |
| True North Fund | -0.4 | 5.1 | 2.6 | 5.7 | 11.8 | 13.5 | 9.7 |
| S&P / TSX Index | 0.3 | 9.8 | -0.2 | -0.7 | 8.3 | 8.2 | 4.2 |
| International Growth Fund | -2.6 | -7.0 | 0.3 | 10.1 | 14.1 | 15.1 | 9.9 |
| MSCI EAFE Index | -4.1 | -10.6 | -6.6 | 2.4 | 9.4 | 12.6 | 7.9 |
| Europe Fund | -8.0 | -15.1 | -10.0 | 0.1 | 8.4 | 12.3 | 8.5 |
| MSCI Europe Index | -5.1 | -11.3 | -7.6 | 0.0 | 9.3 | 12.6 | 7.2 |
| American Disciplined Equity Fund | -3.4 | -7.3 | -0.7 | 14.3 | 18.7 | 19.9 | 17.0 |
| S&P 500 Index (\$CAN) | -0.5 | -2.9 | 8.2 | 16.7 | 19.7 | 20.9 | 19.0 |
| NorthStar Fund | -0.3 | -4.1 | 5.1 | 13.6 | 18.8 | 22.4 | 16.8 |
| MSCI World Index | -1.8 | -5.9 | 1.1 | 9.7 | 14.6 | 16.6 | 13.2 |
| Monthly Income Fund | 0.9 | 6.0 | 6.8 | 6.9 | 9.2 | 9.7 | 9.0 |
| Multi-Index | -0.5 | 1.9 | 1.8 | 4.7 | 8.8 | 8.8 | 7.2 |
| Canadian Asset Allocation Fund | 1.5 | 5.5 | 4.1 | 4.4 | 9.8 | 9.2 | 6.7 |
| Multi-Index | -0.5 | 1.9 | 1.8 | 4.7 | 8.8 | 8.8 | 7.2 |
| Far East Fund | 2.4 | -4.3 | -4.1 | 11.0 | 13.1 | 13.2 | 9.4 |
| MSCI AC FE ex Jap (G) | 2.2 | -4.2 | -8.7 | 5.6 | 9.2 | 10.2 | 6.6 |

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Assumption Life Investment Funds

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Gross returns as of June 30, 2016

| FUNDS | 1 MTH % | YTD % | 1 year % | 2 years % | 3 years % | 4 years % | 5 years % |
|---|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
| CI FUNDS | | | | | | | |
| Harbour Growth & Income Fund | 2.5 | 7.7 | 6.6 | 4.5 | 9.2 | 9.1 | 6.4 |
| Multi-Index | -0.5 | 1.9 | 1.8 | 4.7 | 8.8 | 8.8 | 7.2 |
| Synergy American Fund | -1.6 | -5.7 | 2.2 | 11.0 | 17.7 | 19.1 | 15.8 |
| S&P 500 Index (\$CAN) | -0.5 | -2.9 | 8.2 | 16.7 | 19.7 | 20.9 | 19.0 |
| Global Managers Corporate Class Fund | -1.3 | -2.7 | 1.2 | 8.5 | 12.9 | 14.9 | 12.4 |
| MSCI World Index | -1.8 | -5.9 | 1.1 | 9.7 | 14.6 | 16.6 | 13.2 |
| Signature Canadian Bond Fund | 1.8 | 4.3 | 5.8 | 6.1 | 6.2 | 4.9 | 5.8 |
| SCM Universe Bond Index | 1.8 | 4.1 | 5.2 | 5.7 | 5.6 | 4.1 | 5.2 |
| Signature High Income Fund | 0.3 | 2.0 | -0.7 | 2.3 | 6.8 | 7.6 | 7.5 |
| Multi-Index | -0.5 | 1.9 | 1.8 | 4.7 | 8.8 | 8.8 | 7.2 |
| American Value Fund | -2.1 | -6.0 | 1.3 | 13.3 | 16.8 | 18.5 | 16.0 |
| S&P 500 Index (\$CAN) | -0.5 | -2.9 | 8.2 | 16.7 | 19.7 | 20.9 | 19.0 |
| Synergy Global Corporate Class Fund | -3.6 | -9.3 | -3.1 | 7.9 | 14.5 | 17.5 | 12.9 |
| MSCI World Index | -1.8 | -5.9 | 1.1 | 9.7 | 14.6 | 16.6 | 13.2 |
| Global Small Companies Fund | -4.5 | -6.7 | -1.2 | 8.2 | 14.3 | 17.6 | 12.9 |
| MSCI World Index | -1.8 | -5.9 | 1.1 | 9.7 | 14.6 | 16.6 | 13.2 |
| Cambridge Canadian Asset Allocation Fund | 0.5 | 2.7 | 4.0 | 6.6 | n/a | n/a | n/a |
| 60% S&P/TSX, 40% Dex Universe Bond Total Return | 0.9 | 7.5 | 2.0 | 1.9 | n/a | n/a | n/a |
| Signature Diversified Yield II Fund | -0.2 | 1.0 | -0.7 | 4.0 | n/a | n/a | n/a |
| 40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index | 2.0 | 6.0 | 7.7 | 7.7 | n/a | n/a | n/a |
| AGF FUNDS | | | | | | | |
| Dividend Income Fund | 0.7 | 8.7 | 10.6 | 1.7 | 10.0 | 9.2 | 5.8 |
| S&P / TSX 60 Index | -0.1 | 8.7 | -0.4 | 0.2 | 8.8 | 8.6 | 4.5 |
| Global Equity Class Fund | -1.4 | -1.5 | 5.0 | 11.6 | 15.9 | 17.9 | 14.7 |
| MSCI All Country World Index | -1.8 | -5.1 | 0.2 | 9.0 | 14.2 | 15.9 | 12.4 |
| Total Return Bond Fund | 0.7 | 2.6 | 3.2 | 4.2 | 6.7 | 6.5 | 6.9 |
| Multi-Index | 0.8 | 1.9 | 10.1 | 11.9 | 12.2 | 11.3 | 11.4 |
| Emerging Markets Fund | 3.1 | 1.4 | -4.1 | 2.0 | 4.3 | 4.5 | 3.0 |
| MSCI Emerging markets Free Index | 2.8 | -0.4 | -8.7 | 0.9 | 5.8 | 6.1 | 2.4 |
| Global Resources Class Fund | 0.6 | 13.0 | -8.9 | -18.5 | -1.9 | -1.5 | -7.4 |
| 60% MSCI World Energy Index/40% MSCI World Materials Index | 1.3 | 6.3 | -2.7 | -4.2 | 6.3 | 7.2 | 3.4 |