

Financial and Economic Notes

July 2018 vol. 164

Equity Markets

Canadian equities bounced back strongly in the second quarter after stumbling out of the gates into the New Year. The S&P/TSX Composite began to shrug off trade war rhetoric and offered a 6.8% return for the period. Investors were more open to seizing opportunities than in the previous quarter where risk aversion was more prevalent. Certain market participants decided to further push the momentum of some new companies in the cannabis and technology areas. Others gravitated towards an inexpensive resource sector amidst rising commodity prices. Year-to-date, the index is back in positive territory with a 2.0% return. The strength was encouragingly broad with 10 of 11 sectors yielding positive returns.

The S&P 500 index rebounded from a negative start in the first quarter to return 3.4% in USD this quarter. The loonie continued to weaken, leading to a 5.5% total return in CAD terms. Despite concerns around global trade war escalation, the market has largely looked the other way. Driven by the corporate tax cut, company financial results were very strong in Q1. Overall, the market continues to look reasonably valued against the backdrop of earnings anticipated to grow 20%+ in 2018.

While volatility has remained above a level we have been accustomed to lately, the MSCI EAFE still finished the quarter in positive territory with a 0.94% return in Canadian dollars. Equities generally performed well in April, led by a rally in the Energy sector as oil price continued to trend higher on tighter supply. That being said, the volatility picked-up again in May with the anti-euro movement coming back to investors' minds given the political uncertainty in Italy.

Highlights

Equity markets behaved well in the second quarter, a nice rebound from the first quarter of the year.

Fixed Income Markets

The price of fixed income assets has proven to be resilient as the second quarter of 2018 closed with very little change in bond prices/yields despite an improving economic backdrop. Bond yields rose in April as growth and economic data picked up, although this move proved to be temporary as yields declined steadily through May and June, driven by weaker than expected inflation and wage pressures as well as tariffs and global trade war fears taking center stage. The ripple effect of President Trump's first round of trade tariffs and corresponding series of counter measures by various countries has brought a level of concern and uncertainty for a number of industries and will ultimately weigh on consumer and business confidence as well as investment spending. While \$34 billion of goods are now under tariffs, further trade measures are not expected over the near term with the completion of mid-term elections in the US taking place this fall.

Despite the overhang of trade wars on growth, 2018 forecasted GDP growth in Canada has been trimmed only slightly to 1.9% in 2018 and 1.8% in 2019 while growth in the US is expected to steam ahead after a strong recovery in Q2 with projected growth of 2.8% in 2018 and 2.5% in 2019. The output gap in Canada is closing quicker than expected and business confidence remains strong while inflation pressures remain contained at 2.2%. As a result, the Bank of Canada is expected to look through much of the current trade rhetoric and focus on the real impact of current measures and economic conditions which continue to improve. The Bank of Canada is expected to hike by 25 basis points in July to bring the overnight rate to 1.50% and then implement additional 25 basis point hikes each quarter through to mid 2019 in an effort to converge to a "neutral policy rate" which they have indicated is between 2.50-3.50%. The US Federal Reserve is expected to also continue to raise rates at a similar pace going into the second half of 2019.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2018

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	0.9	1.5	6.5	7.6	5.7	5.6	8.1
Multi-Index	1.1	2.5	7.1	7.8	6.0	6.4	8.6
Canadian Dividend Fund	1.3	0.0	9.9	10.3	8.1	3.9	9.0
S&P / TSX Index	1.7	2.0	10.4	10.7	7.0	4.9	9.2
U.S. Equity Fund (\$CAN)	1.9	3.3	10.9	12.4	7.7	11.2	15.6
S&P 500 Index (\$ CAN)	2.0	7.8	15.9	16.9	13.9	16.8	18.5
Money Market Fund	0.1	0.6	1.0	0.7	0.6	0.6	0.7
SCM 91 Day T-Bills	0.1	0.6	1.0	0.7	0.6	0.7	0.8
Fixed Income Fund	0.5	0.5	1.1	1.1	2.4	3.2	3.7
SCM Universe Bond Index	0.6	0.6	0.8	0.4	2.0	3.0	3.5
Growth Portfolio	1.2	2.6	10.2	10.4	8.2	7.3	11.3
Multi-Index	1.4	3.1	10.8	12.3	8.1	7.7	11.2
Balanced Growth Portfolio	1.0	2.3	8.6	8.4	6.7	6.3	9.6
Multi-Index	1.2	2.5	8.4	9.5	6.7	6.5	9.3
Balanced Portfolio	0.8	1.8	6.2	6.6	5.4	5.6	7.9
Multi-Index	1.0	1.9	5.8	6.4	5.1	5.3	7.3
Conservative Portfolio	0.6	1.0	4.0	4.4	4.2	4.3	6.0
Multi-Index	0.8	1.3	3.3	3.4	3.5	4.1	5.3
Canadian Small Capitalization Equity Fund	-0.2	-3.2	1.8	5.9	8.1	1.7	9.1
BMO NB Small Cap Weighted Index	-0.3	-1.7	5.4	4.6	6.3	0.1	6.5
Momentum Fund	3.9	12.7	26.9	10.3	15.8	9.2	12.7
S&P / TSX Index	1.7	2.0	10.4	10.7	7.0	4.9	9.2
Preferred Share Fund	-0.1	n/a	n/a	n/a	n/a	n/a	n/a
S&P/TSX Preferred Share (TXPR) Index	0.3	n/a	n/a	n/a	n/a	n/a	n/a
FIDELITY FUNDS							
Canadian Opportunities Fund	1.3	3.3	6.8	7.9	7.5	8.4	10.6
S&P / TSX Small and Mid Cap Combined Index	1.0	1.3	7.2	7.2	4.9	2.0	7.0
True North Fund	1.8	3.8	9.4	9.1	6.9	7.4	10.7
S&P / TSX Index	1.7	2.0	10.4	10.7	7.0	4.9	9.2
International Growth Fund	1.2	4.3	10.3	14.1	9.3	12.1	14.1
MSCI EAFE Index	0.2	2.1	8.2	14.1	6.7	8.1	11.2
Europe Fund	-0.1	3.7	8.9	15.1	6.0	7.3	11.0
MSCI Europe Index	0.7	1.6	6.6	13.6	6.1	6.6	11.0
American Disciplined Equity Fund	2.4	7.4	15.8	16.2	10.3	15.3	17.7
S&P 500 Index (\$CAN)	2.0	7.8	15.9	16.9	13.9	16.8	18.5
NorthStar Fund	-0.1	1.6	4.9	6.4	5.9	9.9	13.7
MSCI World Index	1.4	5.4	12.5	15.3	10.4	12.5	14.9
Monthly Income Fund	1.1	1.3	3.2	4.3	5.1	5.6	7.2
Multi-Index	1.1	2.5	7.1	7.8	6.0	6.4	8.6
Canadian Asset Allocation Fund	1.5	2.9	8.2	7.0	6.1	5.7	8.7
Multi-Index	1.1	2.5	7.1	7.8	6.0	6.4	8.6

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
FIDELITY FUNDS							
Far East Fund	-3.5	2.5	18.2	21.2	12.1	16.0	16.3
MSCI AC FE ex Jap (G)	-3.8	0.5	12.1	19.9	9.5	12.5	13.4
Emerging Market Fund	-2.2	n/a	n/a	n/a	n/a	n/a	n/a
MSCI Emerging Markets (G)	-2.7	n/a	n/a	n/a	n/a	n/a	n/a
NorthStar Balanced Fund	0.7	n/a	n/a	n/a	n/a	n/a	n/a
Northstar Balanced Blend	1.1	n/a	n/a	n/a	n/a	n/a	n/a
CI FUNDS							
Signature Corporate Bond Fund	0.5	n/a	n/a	n/a	n/a	n/a	n/a
Multi-Index	0.4	n/a	n/a	n/a	n/a	n/a	n/a
Signature Canadian Bond Fund	0.5	0.6	0.7	0.3	2.1	3.2	3.8
SCM Universe Bond Index	0.6	0.6	0.8	0.4	2.0	3.0	3.5
Harbour Growth & Income Fund	-0.9	-1.6	3.2	3.2	4.3	3.8	6.7
Multi-Index	1.1	2.5	7.1	7.8	6.0	6.4	8.6
Signature High Income Fund	2.1	1.2	2.5	6.0	3.7	4.1	6.5
Multi-Index	1.1	2.5	7.1	7.8	6.0	6.4	8.6
American Value Fund	1.3	6.1	13.1	16.4	11.1	14.8	16.6
S&P 500 Index (\$CAN)	2.0	7.8	15.9	16.9	13.9	16.8	18.5
Cambridge Canadian Dividend Fund	2.4	n/a	n/a	n/a	n/a	n/a	n/a
S&P/TSX Composite Total Return Index	1.7	n/a	n/a	n/a	n/a	n/a	n/a
Global Small Companies Fund	1.2	6.9	14.8	16.8	10.5	12.4	15.3
MSCI World Index	1.4	5.4	12.5	15.3	10.4	12.5	14.9
Cambridge Canadian Asset Allocation Corp Fund	1.2	0.9	3.2	5.8	5.3	6.3	8.4
60% S&P/TSX, 40% Dex Universe Bond Total Return	1.3	1.4	6.5	6.5	5.0	4.2	7.0
Signature Global Resource Corp Class Fund	-0.7	n/a	n/a	n/a	n/a	n/a	n/a
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	3.6	n/a	n/a	n/a	n/a	n/a	n/a
Signature Global Dividend Fund	1.5	n/a	n/a	n/a	n/a	n/a	n/a
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	1.0	n/a	n/a	n/a	n/a	n/a	n/a