

Financial and Economic Notes

July 2015 vol.152

Equity Markets

In Canada, it certainly looked like we were going to add to our first quarter gains as Canadian equities continued their climb during the month of April. Unfortunately, investor sentiment soured in May and June, which resulted in a -1.6% return for the S&P/TSX Composite in the second quarter. Continued concerns about the potential fallout of energy weakness on the overall Canadian economy in addition to the seemingly constant Greece overhang were the most important factors contributing to the market's performance. Interestingly, energy equities were down 4% for the quarter despite crude oil climbing 15% during the same period.

In the US, the S&P 500 added just 0.28% in the second quarter (-1.15% in CAD). Entering 2015, we knew that once tapering began, further price/earnings (P/E) multiple expansion would be elusive. We therefore needed earnings (the E in the P/E) to expand to drive stock prices higher, but earnings, as well as GDP growth, have been flat so far this year.

EAFE equity markets (MSCI EAFE) rose 0.62% in USD (-0.82% in CAD) during the second quarter, exceeding the US and Canadian market for the second quarter in a row. By sector, Telecommunications, Energy and Financials led EAFE markets higher. However market breadth was weak with all but three EAFE components finishing in the red. In direct contrast to the North American markets, Healthcare was the worst performing sector, followed by Materials and Technology.

Highlights

The second quarter of 2015 saw negative returns across most major equity markets driven by slower corporate earnings growth, Greece's ongoing instability and influence on market sentiment.

Fixed Income Markets

This quarter proved to be challenging in terms of increased uncertainty and rising volatility as global event risks offset positive momentum in North American economic data. Improving US economic fundamentals and rising expectations of a rate hike in September by the US Federal Reserve drove bond yields higher during most of the quarter but global event risks began to dominate in late June driving yields lower. Global risks that has drawn recent market attention include payment defaults by Greece and their potential removal from the Euro zone, Chinese stock market volatility and a price decline in commodities related to increased supply and lower demand due to slowing global growth. The rising contagion effect of these risks has led to market uncertainty for a rate hike in the US in September and the renewed chances of a further 25 basis point rate cut by the Bank of Canada in mid-July. Canadian real GDP growth weakened in April with a decline of 0.1% month-over-month due to weaker oil prices and a number of plant shut downs. Economic growth is trailing well below the Bank of Canada forecast of 1.8% for the second quarter which increases the likelihood of a further rate cut by the Bank at the July 15 meeting.

During the quarter, the Canadian yield curve steepened, led by a selloff in US Treasuries and higher rates in ten and thirty-year bonds. In Canada, the two-year bond yield declined 2 basis points to 0.48%, while five-year bond yields increased by 5 basis points to 0.81%. Canadian ten-year bond yields increased 33 basis points over the quarter to 1.68%, while thirty-year bond yields increased 32 basis points to 2.30%.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2015

| FUNDS | 1 MTH % | YTD % | 1 year % | 2 years % | 3 years % | 4 years % | 5 years % |
|--|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| ASSUMPTION / LOUISBOURG FUNDS | | | | | | | |
| Balanced Fund - RPP | -1.6 | 4.1 | 5.2 | 11.8 | 11.3 | 8.0 | 9.0 |
| Multi-Index | -1.7 | 4.4 | 7.6 | 12.5 | 11.3 | 8.6 | 9.5 |
| Canadian Dividend Fund | -2.7 | 0.9 | -7.7 | 10.4 | 11.2 | 6.7 | 11.3 |
| S&P / TSX Index | -2.8 | 0.9 | -1.2 | 12.8 | 11.1 | 5.3 | 8.3 |
| U.S. Equity Fund (\$CAN) | -2.6 | 10.2 | 22.4 | 28.5 | 25.5 | 21.0 | 20.5 |
| S&P 500 Index (\$ CAN) | -1.9 | 9.1 | 25.9 | 25.9 | 25.5 | 21.8 | 21.2 |
| Money Market Fund | 0.0 | 0.3 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 |
| SCM 91 Day T-Bills | 0.1 | 0.4 | 0.9 | 0.9 | 1.0 | 1.0 | 0.9 |
| Canadian Equity Fund | -2.9 | -0.2 | -13.4 | 8.5 | 8.3 | 2.7 | 6.4 |
| S&P / TSX Index | -2.8 | 0.9 | -1.2 | 12.8 | 11.1 | 5.3 | 8.3 |
| Fixed Income Fund | -0.5 | 2.3 | 5.7 | 5.7 | 4.0 | 5.3 | 5.3 |
| SCM Universe Bond Index | -0.6 | 2.4 | 6.3 | 5.8 | 3.8 | 5.2 | 5.1 |
| Growth Portfolio | -2.0 | 6.1 | 4.9 | 16.2 | 16.8 | 10.4 | n/a |
| Multi-Index | -2.5 | 5.1 | 6.4 | 16.0 | 15.2 | 9.5 | n/a |
| Balanced Growth Portfolio | -1.8 | 5.5 | 5.2 | 14.3 | 14.4 | 9.5 | n/a |
| Multi-Index | -2.1 | 4.3 | 6.1 | 13.4 | 12.4 | 8.4 | n/a |
| Balanced Portfolio | -1.4 | 4.7 | 6.1 | 11.9 | 11.3 | 8.5 | n/a |
| Multi-Index | -1.6 | 3.7 | 6.1 | 10.8 | 9.4 | 7.3 | n/a |
| Conservative Portfolio | -0.9 | 3.5 | 4.6 | 8.6 | 7.5 | 6.8 | n/a |
| Multi-Index | -1.0 | 3.0 | 6.0 | 8.1 | 6.5 | 6.1 | n/a |
| Canadian Small Capitalization Equity Fund | -2.4 | 2.0 | -15.3 | 10.7 | 12.5 | 4.8 | 9.1 |
| BMO NB Small Cap Weighted Index | -3.5 | 1.1 | -16.4 | 6.7 | 4.1 | -2.4 | 3.2 |
| Momentum Fund | -3.2 | 3.3 | -8.6 | 8.2 | 10.6 | 1.6 | 7.5 |
| S&P / TSX Index | -2.8 | 0.9 | -1.2 | 12.8 | 11.1 | 5.3 | 8.3 |
| FIDELITY FUNDS | | | | | | | |
| Canadian Opportunities Fund | -1.6 | 4.0 | 11.2 | 15.3 | 15.0 | 9.7 | 12.7 |
| S&P / TSX Small and Mid Cap Combined Index | -2.6 | 1.8 | -6.2 | 10.2 | 9.2 | 4.2 | 8.7 |
| True North Fund | -1.9 | 2.8 | 9.0 | 16.7 | 17.4 | 11.6 | 13.1 |
| S&P / TSX Index | -2.8 | 0.9 | -1.2 | 12.8 | 11.1 | 5.3 | 8.3 |
| International Growth Fund | -2.2 | 16.4 | 21.0 | 21.6 | 20.5 | 12.5 | 13.9 |
| MSCI EAFE Index | -2.8 | 13.7 | 12.3 | 18.4 | 19.8 | 11.9 | 13.2 |
| Europe Fund | -2.7 | 14.9 | 11.3 | 19.0 | 20.9 | 13.7 | 15.9 |
| MSCI Europe Index | -3.1 | 11.9 | 8.2 | 18.9 | 20.2 | 11.3 | 13.6 |
| American Disciplined Equity Fund | -0.7 | 12.7 | 31.6 | 29.9 | 27.7 | 21.9 | 21.3 |
| S&P 500 Index (\$CAN) | -1.9 | 9.1 | 25.9 | 25.9 | 25.5 | 21.8 | 21.2 |
| NorthStar Fund | 1.2 | 16.7 | 22.8 | 26.3 | 28.7 | 19.9 | 19.6 |
| MSCI World Index | -2.3 | 10.6 | 18.9 | 22.0 | 22.3 | 16.4 | 16.8 |
| Monthly Income Fund | -1.2 | 2.7 | 7.0 | 10.4 | 10.8 | 9.6 | 11.3 |
| Multi-Index | -1.7 | 4.4 | 7.6 | 12.5 | 11.3 | 8.6 | 9.5 |
| Canadian Asset Allocation Fund | -1.9 | 2.8 | 4.6 | 12.8 | 10.9 | 7.3 | 8.7 |
| Multi-Index | -1.7 | 4.4 | 7.6 | 12.5 | 11.3 | 8.6 | 9.5 |
| Far East Fund | -2.5 | 19.2 | 28.5 | 22.9 | 19.6 | n/a | n/a |
| MSCI AC FE ex Jap (G) | -4.0 | 14.2 | 22.1 | 19.5 | 17.3 | n/a | n/a |

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Assumption Life Investment Funds

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Gross returns as of June 30, 2015

| FUNDS | 1 MTH % | YTD % | 1 year % | 2 years % | 3 years % | 4 years % | 5 years % |
|---|-------------|-------------|--------------|-------------|-------------|-------------|-------------|
| CI FUNDS | | | | | | | |
| Harbour Growth & Income Fund | -1.9 | 1.7 | 2.4 | 10.5 | 10.0 | 6.4 | 8.4 |
| Multi-Index | -1.7 | 4.4 | 7.6 | 12.5 | 11.3 | 8.6 | 9.5 |
| Synergy American Fund | -0.6 | 9.8 | 20.5 | 26.3 | 25.3 | 19.5 | 20.1 |
| S&P 500 Index (\$CAN) | -1.9 | 9.1 | 25.9 | 25.9 | 25.5 | 21.8 | 21.2 |
| Global Managers Corporate Class Fund | -2.5 | 9.4 | 16.3 | 19.3 | 19.9 | 15.4 | 15.9 |
| MSCI World Index | -2.3 | 10.6 | 18.9 | 22.0 | 22.3 | 16.4 | 16.8 |
| Signature Canadian Bond Fund | -0.6 | 2.5 | 6.4 | 6.3 | 4.6 | 5.7 | 5.6 |
| SCM Universe Bond Index | -0.6 | 2.4 | 6.3 | 5.8 | 3.8 | 5.2 | 5.1 |
| Signature High Income Fund | -1.6 | 3.4 | 5.3 | 10.7 | 10.5 | 9.6 | 11.6 |
| Multi-Index | -1.7 | 4.4 | 7.6 | 12.5 | 11.3 | 8.6 | 9.5 |
| American Value Fund | -1.3 | 7.3 | 26.6 | 25.4 | 24.9 | 20.0 | 20.0 |
| S&P 500 Index (\$CAN) | -1.9 | 9.1 | 25.9 | 25.9 | 25.5 | 21.8 | 21.2 |
| Synergy Global Corporate Class Fund | -1.1 | 12.1 | 20.1 | 24.4 | 25.3 | 17.3 | 18.4 |
| MSCI World Index | -2.3 | 10.6 | 18.9 | 22.0 | 22.3 | 16.4 | 16.8 |
| Global Small Companies Fund | 0.7 | 15.1 | 18.5 | 23.0 | 24.7 | 16.8 | 18.9 |
| MSCI World Index | -2.3 | 10.6 | 18.9 | 22.0 | 22.3 | 16.4 | 16.8 |
| Cambridge Canadian Asset Allocation Fund | -1.6 | 5.1 | 9.4 | n/a | n/a | n/a | n/a |
| 60% S&P/TSX, 40% Dex Universe Bond Total Return | -1.9 | 1.6 | 1.8 | n/a | n/a | n/a | n/a |
| Signature Diversified Yield II Fund | -1.9 | 4.9 | 9.0 | n/a | n/a | n/a | n/a |
| 40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index | -2.6 | 4.8 | 7.7 | n/a | n/a | n/a | n/a |
| AGF FUNDS | | | | | | | |
| Dividend Income Fund | -3.1 | -0.5 | -6.4 | 9.8 | 8.8 | 4.7 | 8.0 |
| S&P / TSX Index | -2.8 | 0.6 | 0.7 | 13.7 | 11.8 | 5.7 | 8.2 |
| International Stock Class Fund | -3.0 | 11.4 | 3.5 | 18.8 | 20.3 | 7.0 | 10.0 |
| MSCI EAFE Index | -2.4 | 13.2 | 12.3 | 18.7 | 20.2 | 12.2 | 13.6 |
| Total Return Bond Fund | -1.1 | 2.7 | 5.2 | 8.6 | 7.6 | n/a | n/a |
| Multi-Index | -0.8 | 8.9 | 13.7 | 13.2 | 11.7 | n/a | n/a |
| Emerging Markets Fund | -2.4 | 7.0 | 8.6 | 8.8 | 7.5 | n/a | n/a |
| MSCI Emerging markets Free TR Index | -2.2 | 10.9 | 11.5 | 13.9 | 11.5 | n/a | n/a |
| Global Resources Class Fund | -3.7 | -1.7 | -27.1 | 1.8 | 1.1 | n/a | n/a |
| Multi-Index | -3.7 | 5.1 | -5.8 | 11.1 | 10.7 | n/a | n/a |