



July 2021

The global economy continued to recover in the second quarter helped by the rollout of COVID-19 vaccines, U.S. fiscal stimulus programs and supportive monetary policies from major central banks.

U.S., Canadian and global equity markets ended the quarter stronger than when they started. U.S. Treasuries, government bonds and investment-grade corporate bonds also recorded positive returns. In Canada, it was another record-breaking quarter for ETFs.

The pandemic still cast its shadow on the quarter. India was hit with an aggressive COVID-19 variant in May. At its peak, cases exceeded 400,000 leading to more restrictions and lockdowns, but by the end of the quarter cases had begun to decline. Japan experienced rising COVID-19 cases in Tokyo and other large cities, just a few months before the Olympics. This led to an increase in the rollout of Japan's vaccination program, and cases have since started tapering.

The Fed left U.S. interest rates in the 0 to 0.25 % range and said it would continue buying Treasuries and mortgage-backed securities to stimulate borrowing and spending. The Fed did raise its forecast for inflation though, to 3.4% by the end of this year. As a result, the Fed signaled it may act sooner than previously planned to start hiking rates – possibly twice by late 2023.

The Bank of Canada also held interest rates at 0.25% saying it expects the economy to rebound strongly this summer. The bank added this would be led by consumer spending as vaccinations continue and provincial governments ease restrictions.

As in the U.S., Canadian inflation went north. Statistics Canada said a 3.6% CPI increase in May was the largest yearly increase in a decade and outpaced the 3.4% posting in April. The Bank of Canada reiterated it was ready to raise rates should inflation come in persistently above its 2% inflation target. However, it noted this recent bout of higher inflation was likely temporary, mainly driven by rebounding gasoline prices and calculations based on last year's depressed levels.

Capital Markets in Q2

The S&P/TSX Composite Index ended the quarter up 8.54 %, led by the Financials (31.59% weight), Energy (12.98%) and Materials (11.63%) sectors. The S&P 500 Index posted a 6.95% return led by the Information Technology (26.2% weight), Health Care (13%), and Consumer Discretionary (12.1%) sectors.

The MSCI EAFE Index was also in positive territory with an 3.83 return led by the Financials (16.96% weight), Industrials (15.5%) and Consumer Discretionary (13.03%) sectors.

For the year to date, the S&P/TSX Composite Index increased 17.28%, the S&P 500 Index rose 12.02% and the MSCI EAFE Index was up 6.12%.

Global markets rallied despite inflation, cryptocurrency volatility and higher COVID-19 cases in several Asian countries after the Fed reiterated its accommodative monetary stance. U.S. equities climbed on increasing economic optimism and news President Biden would propose a US\$6 trillion federal budget for the 2022 fiscal year. Emerging markets equities rallied as well, as a weaker U.S. dollar and higher oil prices helped exports.

In fixed income markets, U.S. Treasuries and government-related bonds recorded positive total returns. Within corporate credit, investment-grade bonds advanced on the back of lower U.S. Treasury yields. Local currency and U.S. dollar-denominated emerging market debt also rose. Eurozone government bond yields increased in April and then remained largely unchanged for the remainder of the quarter.

In foreign exchange markets, the U.S. dollar depreciated against most major currencies as well as those of many emerging markets. This was again due to lower Treasury yields, increased U.S. fiscal spending, falling COVID-19 cases, increased vaccinations and continued hopes of a global economic recovery.

Closer to home, Canadian ETF inflows topped more than C\$4.5 billion with total assets growing to C\$268 billion. Approximately a third of these inflows went into Canadian

equity and another third to crypto assets. CI Global Asset Management also launched the world's first and lowest cost Ethereum ETF in April – the CI Galaxy Ethereum ETF. Within nine days our ETF garnered C\$147 million in assets.

What we can expect now?

The global economy should see an acceleration of the reopening of trade into and through the summer months. We expect to see a wave of pent-up demand particularly in services industries such as travel, dining out and events. This will be fuelled by elevated household savings, continued fiscal and monetary support and the ripple effect from strong housing and equity markets.

Regardless of where we are in the market cycle, it's important to take a disciplined approach to investing and stay focused on your long-term financial goals. This strategy helps you keep your emotions out of investing – typically buying high and selling low like many investors do.

We continue to believe you should maintain a diversified mix of asset classes in your portfolio to maximize potential returns and minimize risk. Regularly reviewing and rebalancing your portfolio back to the target asset mix we created also helps ensure it remains aligned with your financial goals.

Thank you for your continued trust in me and my team for the opportunity to assist you in working toward your financial goals. We are with you every step of your investment journey, identifying strategies and opportunities, reviewing performance and rebalancing your portfolio to help you remain on track. Should you have any questions regarding your portfolio, please do not hesitate to contact me toll free at 866-860-4190 or direct at 613-491-3344.

Sincerely yours,

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