Industrial Alliance
Investment Management Inc.
Economic and Financial Bulletin

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# Greece yet again…

The spotlight is again trained on Greece and its Prime Minister, Alexis Tsipras. As the month drew to a close, everyone was waiting for the results of the surprise referendum, announced just a few days before the deadline for repayment of the 1.5 billion euros to the International Monetary Fund (IMF). Following this sudden announcement, banks and the Greek stock exchange closed their doors, and banks began limiting withdrawals to 60 euros a day for residents, in order to avoid a collapse of the banking sector. The referendum will finally decide whether or not the Greek people want to remain in the euro zone. This event halted negotiations under way with creditors, primarily taxpayers and the IMF, but the possibility of a last-minute offer being accepted still remained. In order to avoid the austerity measures imposed by the IMF as well as dissolution of his government, Tsipras was urging the population to vote "No," which would ultimately lead to the withdrawal of Greece from the euro zone. Apart from the great uncertainty caused by the Greek political situation, the tone of economic data has been rather encouraging since the start of the year in Europe. Economic growth is spreading to the peripheral countries, mainly Spain and Portugal, where spending restraints appear to be bearing fruit.

### Canada: Employment higher than expected in May

The Canadian labour market rebounded in May with a gain of 58,900 jobs, a level nearly six times higher than the 10,000 jobs expected by the markets. Gains were primarily in the private sector, where 56,800 jobs were added. Since the start of 2015, job creation has moved eastward. Nearly 93% of jobs created were located in the provinces of Quebec and Ontario (see graph), regions where manufacturing is relatively strong. Unfortunately, this sector has not yet managed to take advantage of the low Canadian dollar to stimulate the country's exports.

The Bank of Canada released its Financial System Review in early June, in which it judged that vulnerability associated with household indebtedness had edged higher, particularly in oil-producing regions. The BoC gave the example of Alberta, where households have higher debt levels, a higher debt service ratio, and relatively limited liquid financial assets. It also mentioned that while real estate valuations vary across the country, the overall housing market remains overvalued, especially in the cities of Toronto and Vancouver.

### United States: Marked increase in consumer spending

Consumer spending was up 0.9% in May, the highest month-over-month increase since August 2009. These results suggest an improvement in consumer confidence across the country. Indeed, lower gas prices, sustained stock market growth and the real estate market recovery are all factors that have boosted savings and helped inflate the value of household assets; however, households are still choosing to save a portion of these gains, as shown by savings rates, which remain higher than at this time last year.

The U.S. real estate market is currently enjoying good growth. New home sales were up by an annualized 546,000 units in May, the highest level since the crisis. Low mortgage rates continue to bolster borrowing. By way of illustration, the average 30-year fixed-rate mortgage is around 4%, well below the 6% average that prevailed from 2003 to 2007, the last period when sales were as strong.

Some 280,000 jobs were added in May, and numbers were revised upward to 221,000 for the month of April. These gains were realized primarily in the service sector, which saw the creation of 256,000 jobs. In particular, significant increases were seen in the transportation and business service sectors.

The June 17 meeting of the Federal Open Market Committee (FOMC) had been highly anticipated. During the press conference, Janet Yellen, current chair of the U.S. Federal Reserve, stated that although the job market had accelerated since the previous meeting in April, this improvement was not sufficient to warrant raising the key rate for the first time since 2008. A first increase is still expected in September.

### Europe: Greek crisis weighs heavily

The image and credibility of the European Union are on the line regarding its ability to enforce the minimum conditions established for the financial health of its member countries. How the Greek situation plays out could have an impact on the fate of other heavily indebted European countries, such as Italy, Spain and Portugal, which are also vulnerable to potential solvency problems.

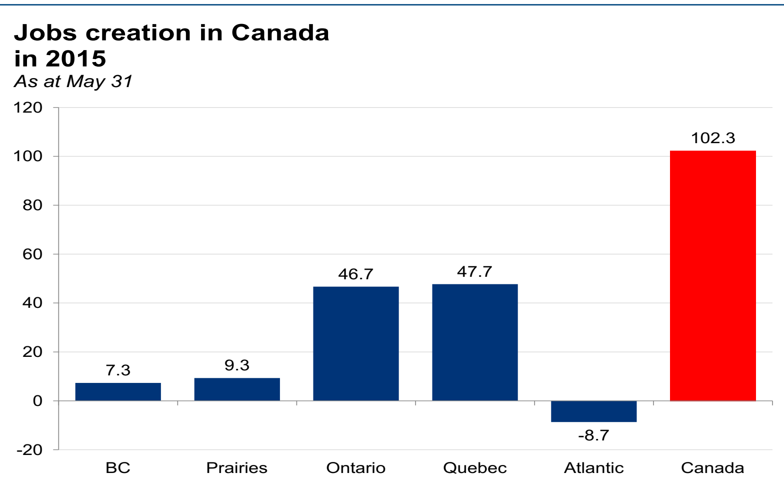
Continued on last page

**Economic and Financial Statistics**

| | As at 2015-06-30[1] | As at 2014-12-31 |
|---|---|---|
| Canada - Unemployment rate | 6.8% | 6.6% |
| Canada - CPI (year/year variation) | 0.9% | 2.0% |
| Canada - GDP (year/year variation) | 1.2% | 2.3% |
| U.S. - Unemployment rate | 5.3% | 5.8% |
| U.S. - CPI (year/year variation) | 0.0% | 1.3% |
| U.S. - GDP (year/year variation) | 2.9% | 2.7% |
| 2-year Canada Bonds | 0.48% | 1.01% |
| 10-year Canada Bonds | 1.69% | 1.79% |
| Oil (West Texas) ($US) | 59.4 | 53.8 |
| Gold ($US) | 1,169.4 | 1,186.3 |
| CRB Commodities Index ($US) | 227.2 | 230.0 |
| Exchange rate $CA/$US | 1.2493 | 1.1621 |

Source: IAIM

[1] Most recent data available at such date




Source: IAIM

INDUSTRIAL ALLIANCE
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## Reference indexes[1] - Returns as at June 30, 2015

| | Simple returns[2] | | | Compound annual returns | | | |
|---|---|---|---|---|---|---|---|
| | 1 month % | 3 months % | YTD % | 1 year % | 3 years % | 5 years % | 10 years % |
| **INDEXES RELATED TO INCOME FUNDS** | | | | | | | |
| FTSE TMX Canada 91 Day T-Bill Index | 0.1 | 0.2 | 0.4 | 0.9 | 0.9 | 0.9 | 1.8 |
| FTSE TMX Canada Short Term Bond Index | 0.3 | 0.2 | 2.1 | 3.4 | 2.7 | 3.0 | 3.8 |
| FTSE TMX Canada Universe Bond Index | (0.6) | (1.7) | 2.4 | 6.3 | 3.8 | 5.1 | 5.0 |
| S&P/TSX Capped Income Trusts (Total Return) | (1.2) | (5.4) | 3.3 | 6.8 | 6.9 | 15.1 | 10.2 |
| SB - World Government Bonds (Can. $) | (0.2) | (3.2) | 3.2 | 6.3 | 4.4 | 4.4 | 3.3 |
| **INDEXES RELATED TO CANADIAN EQUITY FUNDS** | | | | | | | |
| S&P/TSX 60 | (2.8) | (1.8) | 0.6 | 0.7 | 11.8 | 8.2 | 7.1 |
| S&P/TSX Completion Index | (2.6) | (1.3) | 1.8 | (6.2) | 9.2 | 8.7 | 6.6 |
| S&P/TSX Composite Index | (2.8) | (1.6) | 0.9 | (1.2) | 11.1 | 8.3 | 6.9 |
| S&P/TSX Capped Composite Index | (2.8) | (1.6) | 0.9 | (1.2) | 11.1 | 8.3 | 6.9 |
| S&P/TSX SmallCap Index | (3.5) | 1.3 | 1.1 | (16.4) | 4.1 | 3.2 | 2.6 |
| **INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS** | | | | | | | |
| S&P 500 (Can. $) | (1.9) | (1.4) | 8.8 | 25.5 | 25.5 | 21.2 | 8.1 |
| S&P 500 (Can. $) (Reuters) | (1.9) | (1.2) | 9.1 | 25.9 | 25.5 | 21.2 | 8.1 |
| MSCI - World (Can. $) | (2.3) | (1.3) | 10.4 | 18.5 | 22.2 | 16.8 | 6.6 |
| MSCI - EAFE (Can. $) | (2.8) | (1.0) | 13.5 | 11.9 | 19.8 | 13.2 | 5.3 |
| MSCI - EAFE (Can. $) (Reuters) | (2.8) | (0.8) | 13.7 | 12.3 | 19.8 | 13.1 | 5.3 |
| MSCI - Europe (Can. $) | (3.0) | (1.0) | 12.1 | 8.5 | 20.9 | 14.3 | 5.8 |
| **INDEXES RELATED TO SPECIALTY FUNDS** | | | | | | | |
| MSCI - AC Asian Pacific Free (Can. $) | (2.9) | (1.0) | 15.6 | 20.5 | 18.4 | 11.9 | 6.8 |
| MSCI - Emerging Markets (Can. $) | (2.5) | (0.8) | 10.9 | 11.3 | 11.3 | 7.5 | 8.6 |
| MSCI - World Health Care (Can. $) | (1.2) | (0.5) | 17.2 | 35.1 | 30.6 | 22.6 | 8.4 |
| NASDAQ 100 (Can. $) | (2.4) | (0.2) | 11.6 | 33.5 | 27.2 | 24.4 | 11.6 |
| S&P/TSX Capped REIT Index | (1.0) | (5.0) | 2.6 | 3.0 | 3.9 | 12.1 | 9.1 |

| | Variation | | | Compound annual variation | | | |
|---|---|---|---|---|---|---|---|
| | 1 month % | 3 months % | YTD % | 1 year % | 3 years % | 5 years % | 10 years % |
| EXCHANGE RATE (Can. $ / US $)<br>As at June 30, 2015: 1.2474 | 0.1 | (1.6) | 7.5 | 16.8 | 7.0 | 3.3 | 0.2 |
| EXCHANGE RATE (US $ / Can. $)<br>As at June 30, 2015: 0.8017 | (0.1) | 1.7 | (7.0) | (14.4) | (6.5) | (3.2) | (0.2) |

Continued from first page

### World: Chinese stocks enter bear market

China's two main stock markets have both plummeted more than 20% since their June 12 peak, entering the bear market territory. In stock value terms, depreciation of the two stock market indices represents more than 2.3 trillion U.S. dollars; by way of comparison, this is more than the entire value of the Canadian stock market. Measures were taken to try to stabilize the markets. The People's Bank of China cut its interest rates once again and lowered the minimum level of deposits that some banks must keep in reserve. However, the situation remains dicey and Chinese regulators have brought to light the rapid explosion of margin financing by investors, where loans are used to buy more Chinese stocks.

### Financial markets: A rather red month!

- The S&P/TSX Composite Index stayed in the red in June. The Canadian index was down 2.8% for the month, dragged down by the 1.4% drop in the price of U.S. oil. The return since the start of the quarter has been negative (-1.6%), but still slightly positive for the year to date (0.9%).
- The U.S. S&P 500 Index was down, with a total return of -1.9% (-1.9% in Canadian dollars). Utilities was the sector most affected, retreating 6.3%. The depreciation of the loonie, which has lost about 7% against the U.S. dollar in 2015, has been a boon to Canadian investors, pushing the U.S. market's 1.2% total return in local currency up to 8.8% in Canadian dollar terms.
- World indices MSCI - EAFE and MSCI - World lost 4.4% and 2.9% respectively (2.8% and 2.3% respectively in Canadian dollars). The emerging markets, measured by the MSCI - Emerging Markets Index, were down 2.2% (-2.5% in Canadian dollars). For the year to date, total returns for the MSCI - EAFE, MSCI - World and MSCI - Emerging Markets indexes remain positive, posting 8.8%, 4.1% and 5.8% respectively in local currency (13.5%, 10.4% and 10.9% in Canadian dollars).
- The Canadian bond market, measured by the FTSE TMX Canada Universe Bond Index, was down 0.6% in June. The return for the year to date remains positive at 2.4%.

1 Indexes presented in this document are total return index.
2 The rates for the period are non-annualized.