Economic and Financial Environment

As at June 30, 2021

Group Savings and Retirement

Virus, vaccine… inflation?

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With half of 2021 now behind us, the economic outlook is improving month by month.

Who'd have thought just a year ago that two thirds of the Canadian population would've received at least one dose of the vaccine by June 30, 2021, and that we'd already be worrying about an overheating economy? Well, here we are: after the virus and the vaccine, inflation is already on its way!

While we believe it's unlikely we'll be reliving the inflationary episodes that marked the 1970s and 80s, it's increasingly clear that inflation will overtake central bank targets in the years ahead—it may even exceed 4% in the coming quarters. Most central banks are likely to adopt a cautious stance in the short term so as not to dampen the global economy, but they'll have to exercise great care over the next few years to ensure a soft landing.

Governments around the world will also have to look closely at how they manage their public finances. More than a year after the outbreak of the COVID-19 pandemic, government deficits remain high, as is the case, too, for debt-to-GDP ratios—and there's no sign yet of plans to return to balanced budgets. It's true that with interest rates as low as they are now, there isn't much urgency to cut spending; however, the time will come when politicians must end special programs while trying to avoid creating a vacuum.

One thing seems to be looming on the horizon: the current business cycle may be shorter than the two previous cycles, both of which lasted about ten years. The U.S. economy will likely return to its full potential by the end of 2021. According to the Bank of Canada, the Canadian economy will do likewise around mid-2022, ensuring that we quickly enter the mature phase of the economic cycle. How long will it last? What an excellent question!

World: already at top speed?

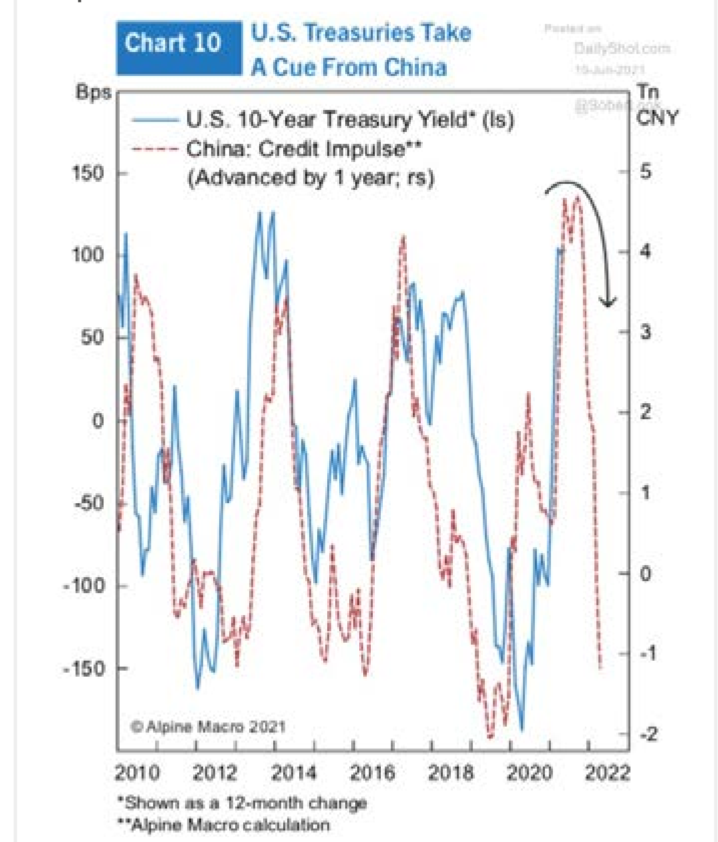
The global economy, supported by massive fiscal and monetary stimuli, continues to rebound with panache as it emerges from this recession. The most recent OECD forecast predicts global economic growth of 5.8% in 2021, a sharp hike from the December 2020 forecast of 4.2%. Currently, the forecast for 2022 is 4.4% for the world as a whole, with India and China driving much of that growth.

The OECD is optimistic though still worried about the uneven nature of this economic recovery, mainly because it's made possible by the distribution of COVID-19 vaccines, which once again favours developed nations at the expense of emerging economies. While a resurgence in the number of cases in some parts of the world remains a possibility, the leading risk factor is the underlying threat of an outbreak of a new variant resistant to known vaccines, which would once again lead to pressure to close down the global economy.

As we've already reached the middle of 2021, we can consider the balance of risks to be still positive. Purchasing managers' indices (PMIs) continue to send signals of a strong and well-anchored recovery, but there's reason to believe that the pace of economic growth has already peaked. We expect a gradual slowdown in the pace of the main indicators linked to economic growth, which would result in a more "normal" pace over the course of 2022.

As always, China remains in the spotlight. Certain observers are concerned that it is already attempting to tighten its credit cycle, a key economic indicator that, historically, has shown a strong correlation with the health of the global economy and, incidentally, interest-rate movements (Graph 1).

Graph 1



In fact, a strong economic push at the end of the pandemic drove up prices for copper, nickel, and several other metals, as well as that of lumber, leading to speculative behaviour among some producers. In an effort to prevent speculative bubbles from emerging, Chinese authorities are currently striving to restrain inflation in the pricing of raw materials, which is reflected in producer price indices.

A slowdown in the Chinese economy would create a headwind for the global economic cycle, but, in our view, current Chinese practices should be seen as an exercise in risk management. We'd be very surprised to see Chinese authorities voluntarily curb growth prospects, and continue to view China as being well positioned to contribute to the next phase of the global economic cycle.

Europe: vaccination goes into second gear

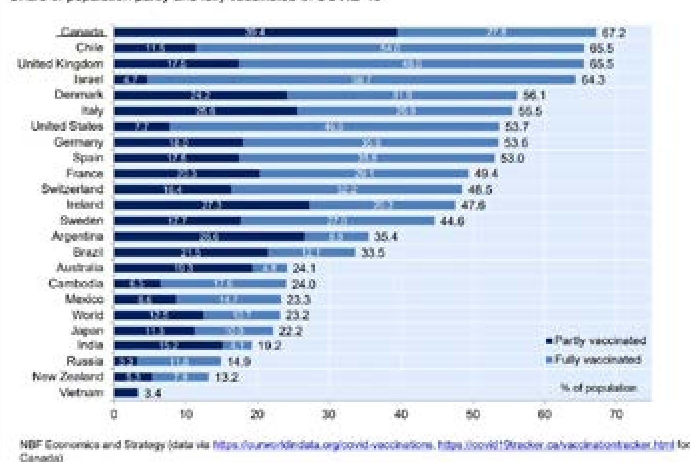
The Old World has generated plenty of good news in the second quarter of 2021.

Since early April, the vaccination campaign has sped up to a blistering pace, propelling Italy, France, and Germany to the top among countries with the highest proportion of vaccinated inhabitants. At the end of the quarter, about 50% of the population in these three countries had received at least one dose of the vaccine—as against barely 10% in late March (Graph 2).

Graph 2

World: Perspective on vaccine rollout (1)

Share of population partly and fully vaccinated of COVID-19



Given the expectation of a quicker return to normal, the European Central Bank (ECB) has once again revised upward its projected economic growth rate in the Euro Zone. While it anticipated real GDP growth of 4.0% and 4.1%, respectively, in 2021 and 2022, these expectations were raised to 4.6% and 4.7% in June, which easily exceeds the record of 3.8% set in 2000.

Despite these optimistic expectations, the ECB doesn't expect Europe to fall victim to inflationary pressures, as is the case for the United States. In fact, its prognosis for total inflation in the Euro Zone is barely 1.9% for 2021 and 1.5% for 2022, both below the target of 2%.

Furthermore, it's because of this view held by the decision-making committee that the ECB still maintains its quantitative easing program in place, and is slow to announce its monetary policy stance. If we go by the example of the previous decade, the ECB will, once again, probably exercise great caution before withdrawing liquidity from Euro Zone markets. Certain observers believe that a gradual decrease in the ECB's purchases of securities in the financial markets may begin sometime in autumn 2021. As a result, this summer, investors are sure to keep their eyes on the ECB as they await signals.

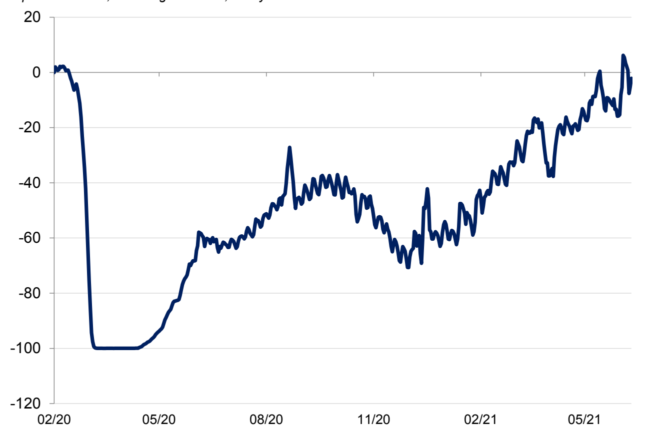
In the meantime, economic data show that Europe is in post-lockdown acceleration mode. The vaccination campaign's recent successes allow for an orderly reopening of the economy, which is good news as much for the manufacturing industry as for the service sector. Following Europe's few stutter steps last autumn, we are now placing the Old World's economy at the top of the list of investment options for the year ahead.

United States: spotlight on inflation

The reopening of the economy is going very well for our neighbours to the south! High-frequency data on restaurant reservations (Graph 3), hotels stays, casino visits, and kilometres travelled on U.S. highways indicate that trips and outings have already exceeded 2019 levels. Who could've imagined in March 2020 this level of recovery by June 2021?

Graph 3

U.S.: Seated Diners



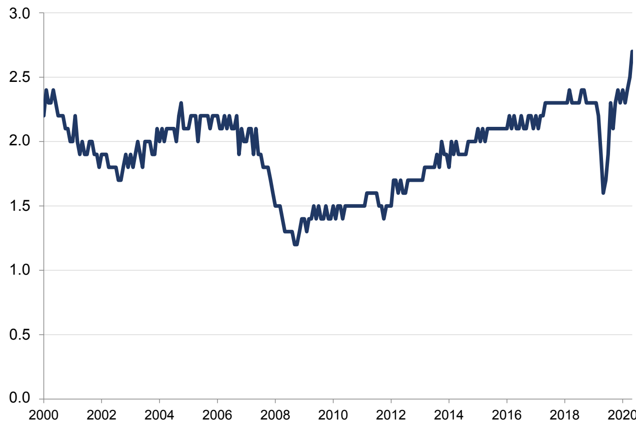
Despite this excellent news, we must guard against proclaiming too loudly that the situation in the U.S. is back to normal. After all, the COVID-19 pandemic has brought about profound changes, which (at least in the short term) will continue to have a profound impact on the current economic recovery.

Americans may well have regained their mobility, but at the end of the quarter, the number of workers who'd returned to downtown job locations did not match the progress shown by other high-frequency data. According to data provided by Kastle, a firm that handles security in office buildings, only 31% of employees were physically back in the office in June in large urban centres. This finding is important since the vitality of America's downtowns has a major impact on national economic strength. What's more, many small businesses, such as restaurants, depend on the presence of workers in large urban centres.

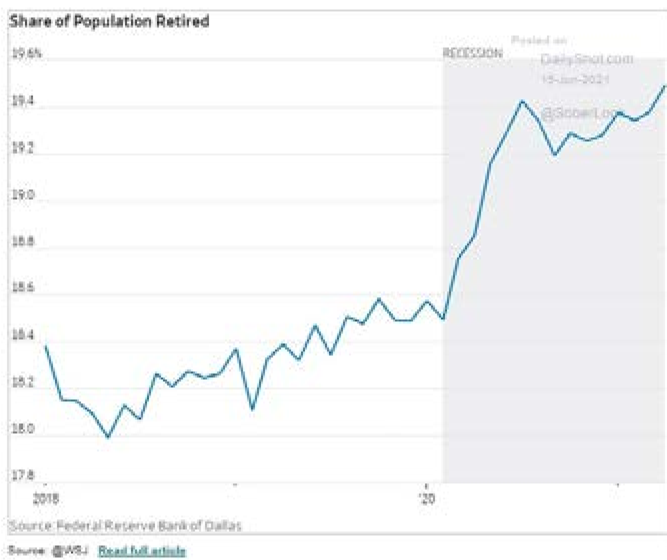
The media has even reported that some workers now prefer to quit their current job instead of physically returning to work—they'd rather find another job that allows them to work remotely. Over the past year, workers have acquired new habits, and it will likely take longer than expected to see a swing back to pre-pandemic behaviour in this regard.

This development can be observed in two economic indicators linked to the labour market. First, the proportion of employees who voluntarily quit their jobs rather than being sacked recently jumped to 2.7%, a historic high since the development of this marker 20 years ago (Graph 4). Further, we note that the proportion of the U.S. population that claims it has retired has jumped significantly since March 2020, rising from 18.6% to almost 19.5%, illustrating that a significant portion of older folks prefer not to return to work in a post-COVID environment (Graph 5).

Graph 4



Graph 5



We need to consider another important issue: the vaccination campaign has significantly slowed down in recent months. The proportion of the U.S. population that has been vaccinated is barely above 50%. Clearly, the percentage of the population that was willing to be vaccinated has received its shot in the arm. U.S. authorities have much more work to do to persuade the other half of the population to get the vaccine and keep the country among the leaders worldwide in this respect.

We also note that vaccination in the U.S.—unlike Canada—is uneven across the country's various regions. In some southern states, such as Alabama and Mississippi, vaccination rates are barely at 30%, and progressing very slowly. The risks of a new variant spreading and forcing a return to restrictive measures remain very real, though studies demonstrating the efficacy of available vaccines against these variants are positive.

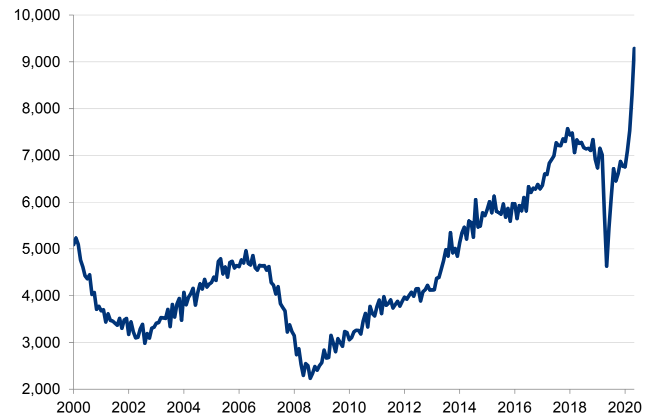
Beyond these issues, economic data are generally favourable, especially with regard to household consumption.

The build-up of generous employment insurance programs and direct transfers to households have pushed Americans' disposable income to 20% above pre-COVID levels and savings rates to an all-time high. Now, as a result of pent-up demand, retail sales are breaking records, both in terms of dollars spent and annualized growth rates. We can expect consumer spending to continue acting as a tailwind for the economy for a few more years as households gradually reduce their savings rate.

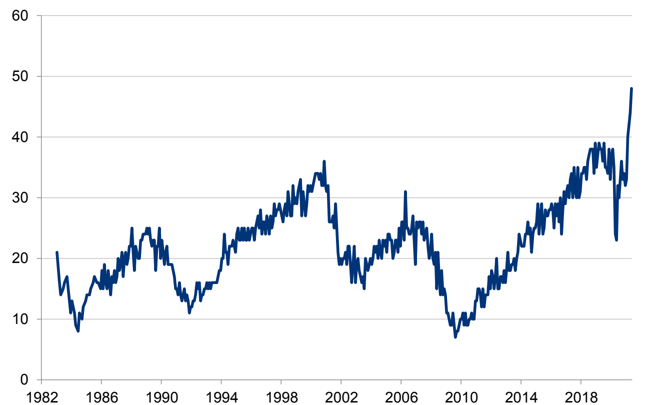
Companies are also sending positive signals for the future as investment intentions are high, CEO confidence is high, and hiring intentions are breaking records.

However, the labour market is sending signals suggesting a sharp imbalance between labour supply and demand. Companies are posting a record number of positions to fill, but are having difficulty finding qualified workers to meet their needs (Graphs 6 and 7). This phenomenon is apparent in both the service sector and the manufacturing industry, which leads us to think that the problem is quite complex.

Graph 6



Graph 7



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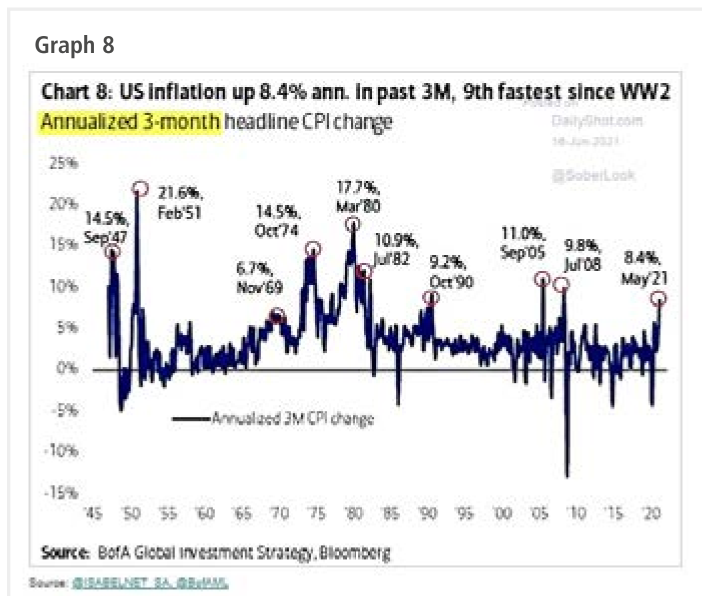
Several reasons may explain this development. First, it's likely that a certain proportion of unemployed people would rather not come into contact with others, especially in the restaurant and hotel industries, for fear of contracting COVID. Second, the possibility of a new lockdown may weigh on parents of school-aged children, who prefer to stay at home and take care of their family, at least until school starts again in September. But the prevailing factor in our view is probably the generosity of government support programs for the unemployed, which are now very generous indeed given the extent and scope of the reopening phase.

In certain sectors where the average hourly wage is relatively low, it's understood that the generosity of government transfers encourages some skilled workers to stay at home, since they are in fact earning more than if they returned to work. This problem is specific to the U.S. labour market given that the government's workforce support strategy has revolved around sending cheques directly to families rather than opting for a wage-bill subsidy as was the case in Canada.

These special aid programs will end by September across the U.S., but some states (most of them Republican), have decided to end them earlier due to pressure from local entrepreneurs who claim that these programs act as a brake on the pace of economic recovery in their locations. This will likely remain a hot issue this summer, and political pressure is sure to increase as a result.

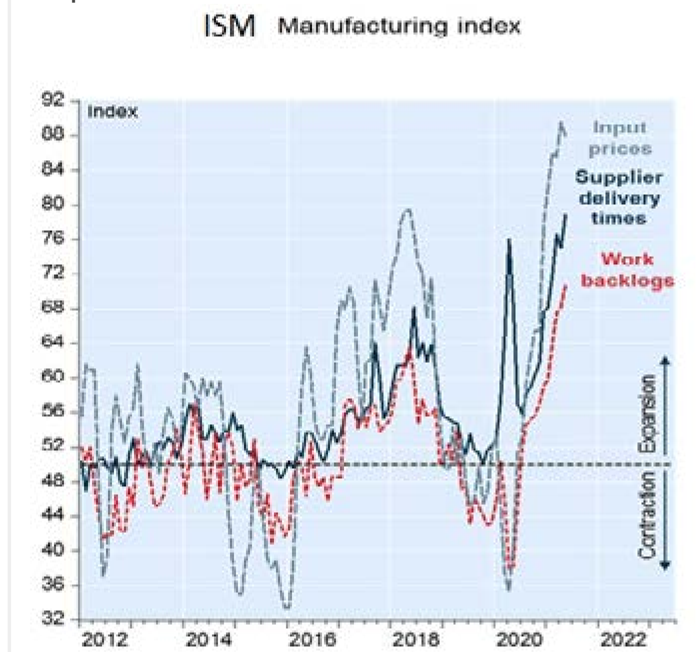
The combined effect of the issues mentioned above has been pushing inflation toward historic levels in recent months. In fact, when annualized, the rate of inflation observed in the months of March, April, and May ranks ninth among the highest inflationary episodes since World War II (Graph 8).

Graph 8



The main reason for this inflationary pressure is the tightening of production chains. Demand is high for goods and services, and producers are reporting great difficulty in responding to demand due to plant and border closures. Order books are full, delivery times are expanding on a historic scale, and prices for inputs to production are rising rapidly (Graph 9).

Graph 9



Among forecasters, the consensus points to annualized U.S. GDP growth of 13.0% in the second quarter, followed by 6.8% and 7.1%, respectively, in the third and fourth quarters of 2021, levels we haven't seen in 20 years. More specifically, the U.S. economy's ongoing reopening is putting pressure on the pricing of used cars, airline tickets, restaurants, and hotels, which are suddenly facing too much demand.

However, as is the case of many investors (if we go by the markets' signals), the Federal Reserve sees this inflationary surge as temporary. But we have our doubts about this view.

First, the Fed states by way of explanation that the looming end to the extraordinary support provided to unemployed Americans will restore labour market balance by this autumn as well as resolve labour shortages and reduce delivery times. Data to be released by this autumn will be very instructive in this regard, since we're already starting to see wage pressures take hold in several key sectors as employers scramble for skilled labour in the face of the current workforce shortage. We argue, however, that recent wage increases will not go away as soon as government assistance ends, and that the changes COVID has brought about in the labour market are likely to give workers bargaining power for years to come.

Further, the notable delivery times currently observed probably reflect a change in the global supply chain, which will gradually become more local. After decades of increasing globalization, several countries will seek to repatriate certain industries, thereby generating inflationary pressures that will last for a few years.

In sum, we agree that inflation will probably not exceed the 5% threshold on a lasting basis, but we may also see inflation hovering between 3 and 5% for some years yet.

Finally, we can add President Joe Biden's budget proposal to the list of potentially inflationary factors. The most recent plan put forward (which will probably not be fully endorsed but instead be used as a guideline) focuses on

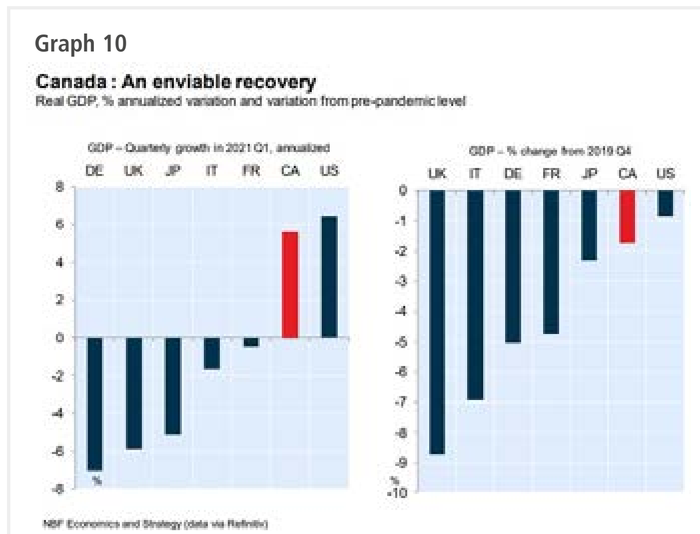
key social reforms, support for education, and health care as well as massive infrastructure spending. The result is that U.S. debt as a percentage of GDP may rise to 117% by 2031, according to the Congressional Budget Office, a peak since World War II.

The U.S. doesn't seem to be in a rush to clean up its public finances, so don't expect a post-COVID assessment of the federal government's high debt level any time soon.

Canada: leading the world in vaccination!

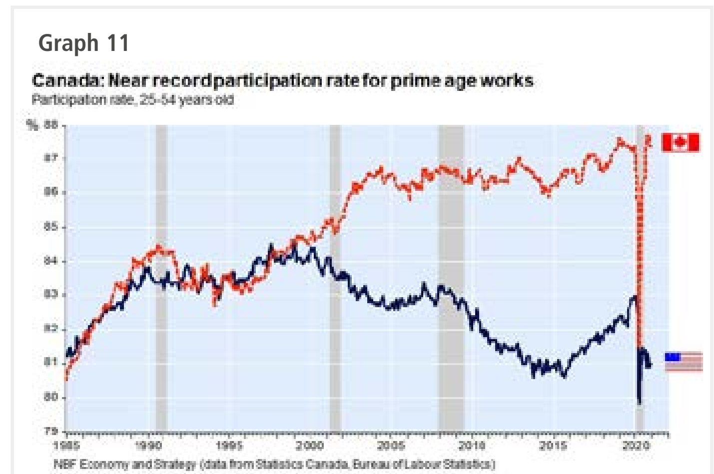
It is official, Canada leads the world for the proportion of the population that has received at least one dose of the vaccine. The forthcoming quarter will see an acceleration in the distribution of the second dose, and should place the country in the lead position in all vaccination-related respects. This is excellent news, both from a social and economic standpoint.

Despite the province's cautious strategy in the face of three waves of COVID since March 2020, Canada provided the second-best economic performance among G7 nations during the pandemic, ranking just behind the United States in terms of cumulative rebound and first-quarter strength in 2021 (Graph 10). Thanks to Canada's vaccination rate, which is among the best in the world, we can expect an orderly and sustainable reopening of the country's economy by the end of the year.

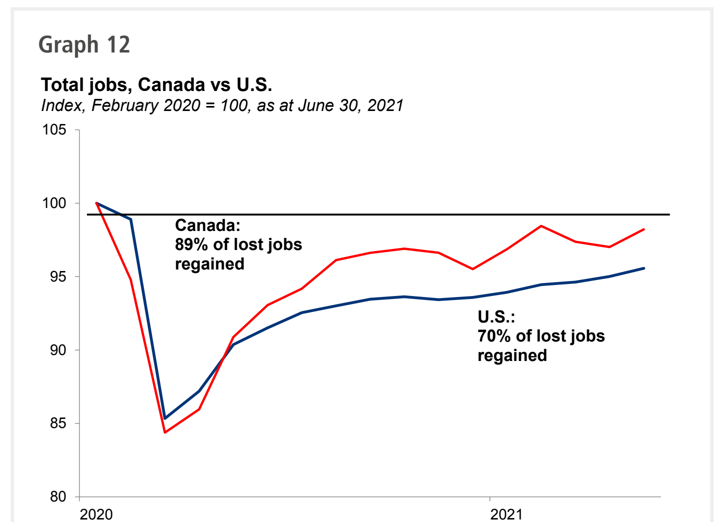


The Canadian labour market offers a contrast with that of the U.S., which suggests in a way that our economy's rebound may be more robust than the recovery south of the border.

First, the participation rate of Canadians aged 25 to 54 in the job market is back to its pre-COVID level—in fact, it even exceeded that level for a few months earlier this year (Graph 11). It's a different story in the U.S., where the participation for this age group has dropped by 2% and is struggling to recover. There are several reasons for this gap, for example, mistrust of the virus and slower vaccination campaigns in the U.S. But the decisive factor, in our view, was Canada's strategy of subsidizing the wage bill (thereby preserving employment links) rather than simply sending aid cheques to the unemployed, as was done in the U.S.



Second, although GDP has rebounded quicker in the U.S. in the past year, the Canadian labour market has posted a stronger recovery. As described in the previous section, the generosity of U.S. financial assistance for the jobless has restricted labour supply and hampered the employment market's recovery. This phenomenon is much less significant in Canada: as a result, as at June 30, 2021, over 80% of Canadian workers who had lost their job since February 2020 were back at work, compared to 70% in the U.S. (Graph 12).



How is Canada faring 15 months after the start of the pandemic? The Canadian labour market is doing well. The COVID death rate is lower than it is in the U.S.—if the rates had been equivalent, Canada would have mourned 43,000 more deaths! Canada's economic forecast is quite favourable, especially if we take into account the fact that Canadian households have even more pent-up demand than is the case in the U.S. So, advantage Canada!

The Bank of Canada also notes that the country's economic outlook is fairly positive. Accordingly, it has adopted an optimistic tone that diverges from that of the Fed. Even if the Bank's very optimistic expectations did not turn out to be correct in the first quarter, when Canada's GDP grew only by 5.6% (still a very strong performance) rather than the expected 7.5%, Governor Macklem and his team are still betting on the output gap being closed in mid-2022.

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We believe the Bank of Canada is likely to raise its policy rate before the end of 2022, ahead of the Fed. In the meantime, we expect that the Bank will announce, sometime in the summer, its intention to reduce the pace of its quantitative easing program, which is expected to be phased out at the end of the year.

The expected divergence in monetary policies, the strength of the Canadian economy, the rise in prices for natural resources, and future structural deficits in the United States make us very optimistic about the Canadian dollar. We expect the Loonie to appreciate into the 85-90-cent range in the second half of the year, and we don't exclude the possibility of its achieving parity in a few years.

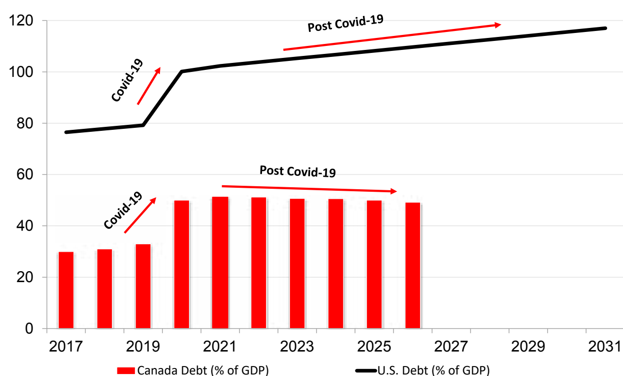
In closing, a word about Canada's public finances.

In the second quarter of 2021, Minister of Finance Chrystia Freeland tabled her first budget. As is the case south of the border, Canada's plans to return to a balanced budget have been postponed to a distant future so as not to slow down the process of recovery from the COVID crisis. However, there is a big difference between Canada and the United States in the regard: the weight of our federal debt, measured by the debt-to-GDP ratio, should decrease starting in 2022, since economic growth will be strong enough to offset expected deficits. In other words, the size of Canada's debt is under control even if deficits are forecast for every year until 2026—and this can't be said for the U.S., as shown in Graph 13.

Graph 13

Canada & U.S.: Weight of federal debt as % of GDP

Forecasts by Congressional budget office, interpolation (2021-2031)
2021 Federal Budget Canada



Markets: 2021, the year of the S&P/TSX?

The second quarter of 2021 was very positive for Canadian and European stock markets, which are driven by leadership rotation toward cyclical sectors. The surge in the price of oil has propelled the energy sector to pre-pandemic levels, and price strength for base metals, such as copper, has attracted investor interest in the natural resource sector. In short, as the rapid rise in interest rates in the first quarter pushed up the Canadian banking sector, the S&P/TSX's makeup has once again worked in its favour over the past three months, placing the Toronto index at the top of the charts in 2021.

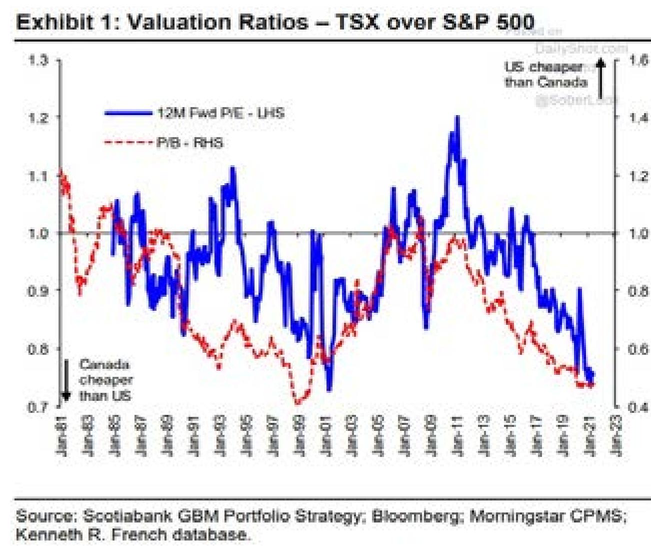
The same situation is playing out in European stock markets, which are finally benefiting from their cyclical sector bias. We've also noted that international investor interest in European securities is growing, and that net flows to Europe are currently reaching a three-plus-year peak. European banks are of particular interest in this climate of vigorous and widespread economic recovery, coupled with rising long-term interest rates.

Since 1999, European stock markets had been unable to break through a glass ceiling (see Graph 14). Following several attempts in 2007, 2014 and 2020, it seems as if the value of the S&P Europe 350 Index has finally exceeded its long-term range, and we consider this upward movement to be sustainable.

Graph 14

In addition to their favourable cyclical character, Canadian and European stock markets currently benefit from a considerable discount compared to their U.S. counterparts. In terms of the valuation gap, measured by price-to-expected earnings ratios, Canada and Europe offer a bargain of over 20% compared with U.S. stock markets—a situation we haven't seen since the peak of the 1999 tech bubble (Graph 15).

Graph 15



In fact, the parallel with the post-tech bubble period is interesting.

At the time, we'd found ourselves with an affordable Canadian market on a relative basis. This was followed by a few years of strong and extensive global growth, coupled with a surge in the price of raw materials. Although we don't foresee, in the next five to seven years, a repeat of the boom that occurred when China joined the World Trade Organization (WTO), the similarities are plentiful enough to suggest that the Canadian market may be entering a phase during which it outperforms its U.S. counterpart.

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As noted in the previous quarter, the "easy" part of the stock market cycle, that is, the first rebound after the bear market ends, is now behind us. The second year of a bull market remains positive, on average, but more volatile, with an average return of 13.3% per year for the S&P 500 since 1957, along with average corrections of 9.8% (Graph 16).

Graph 16

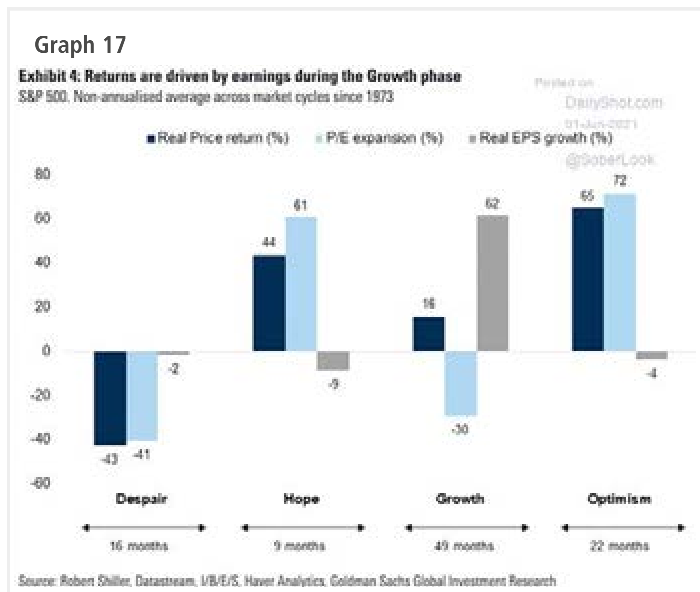
Bull market returns and drawdowns

Year Bull Market began	First Year Return	Second Year Return	Second year: largest intra-year pullback
1957	31.5%	11.2%	-9.2%
1962	33.9%	15.7%	-6.5%
1966	32.9%	6.2%	-10.0%
1970	45.7%	5.8%	-11.0%
1974	33.2%	27.7%	-5.1%
1982	56.3%	1.5%	-14.4%
1987	21.7%	26.1%	-7.6%
2002	33.1%	9.4%	-8.2%
2009	68.3%	16.0%	-16.0%
2020	76.1%		
Average	43.3%	13.3%	-9.8%

Data source: Truist IAG, Strategas, Bloomberg

We estimate that the market entered its "growth" phase at the beginning of 2021. This is the longest phase of the cycle, where returns typically come from growing corporate earnings and not from an expansion of multiples. In fact, market multiples tend to contract during the growth phase since much of the good news is already reflected in prices. According to a recent study by Goldman Sachs (Graph 17), this growth phase generally lasts about four years, but its annual positive returns are lower than in the preceding phase.

Graph 17



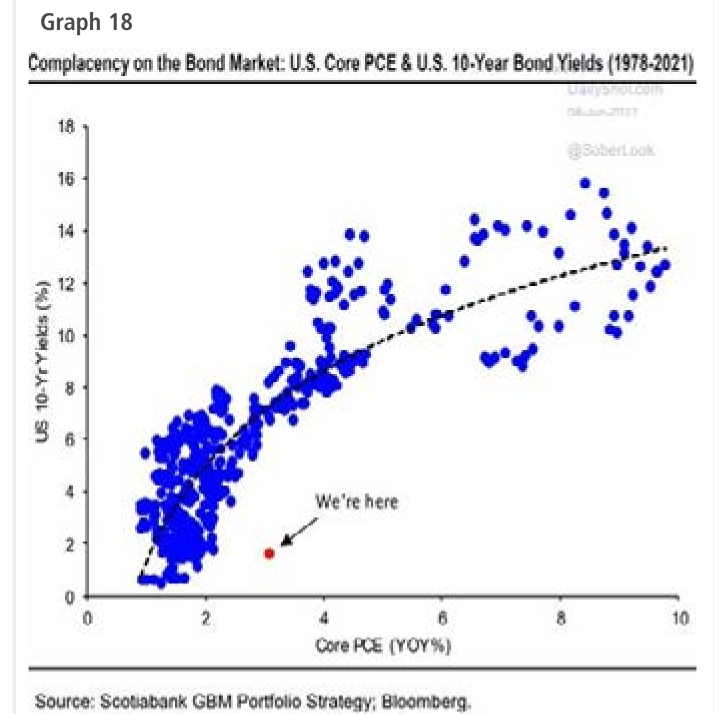
Given the relatively affordable multiples in the Canadian and European markets, as compared with the U.S. market, we expect these to perform very well in the years ahead.

Consequently, our prognosis for the coming quarters remains rather positive for equities, but we encourage investors to be more cautious and, above all, to temper their expectations. While volatility seems to have left the stock markets since last September, keep in mind that the summer months have been prone to turbulence.

Among the main risk factors, one in particular has drawn our attention: the current level of long-term interest rates is not consistent with the most recent inflation data.

As we can see in Graph 18, the current level of 10-year interest rates diverges significantly from its long-term relationship with core inflation. This phenomenon suggests that investors share the Fed's view that recent inflation is only temporary; as a result, investors are willing to hold federal bonds despite historically low potential returns. If this view among investors were to change abruptly (for example, as a result of higher inflation figures or a change in the Fed's tone), the potential for a rapid and disorderly rise in interest rates may shock stock markets and trigger a correction.

Graph 18



Basically, it's important for investors to remain invested in the markets and, above all, to abide by their risk-tolerance threshold. As we move into mid-2021, we firmly recommend exercising a more cautious stance on the balance of risks, taking profits on winning positions, and being ready to put money back into the markets should they decline in the months ahead.

In the second quarter of 2021, the Canadian bond market, as gauged by the FTSE TMX Canada Universe Bond Index, showed a return of 1.7%. The FTSE TMX Canada Short Term Bond Index returned 0.7%. Lastly, the FTSE TMX Canada Long-Term Index went up by 1.3%.

U.S. stocks listed on the S&P 500 provided an overall return of 8.5% in the second quarter (6.9% in Canadian dollars). Canadian stocks listed on the S&P/TSX Index rose by 8.5%.

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The European market represented by the MSCI Europe Index posted a return of 7.3% in the second quarter (6.1% in Canadian dollars). The MSCI EAFE Index rose by 4.8% (3.6% in Canadian dollars) during the quarter. The MSCI World Index returned 7.6% (6.2% in Canadian dollars) during the quarter. Emerging markets, as gauged by the MSCI Emerging Markets Index, posted a return of 3.9% (3.6% in Canadian dollars) for the quarter.

Strategy: caution in the short term, stocks for the long term

Fifteen months after the market bottomed out, investors face low interest rates and historically high stock valuations… How can you stay on top of the market from now to the end of the year?

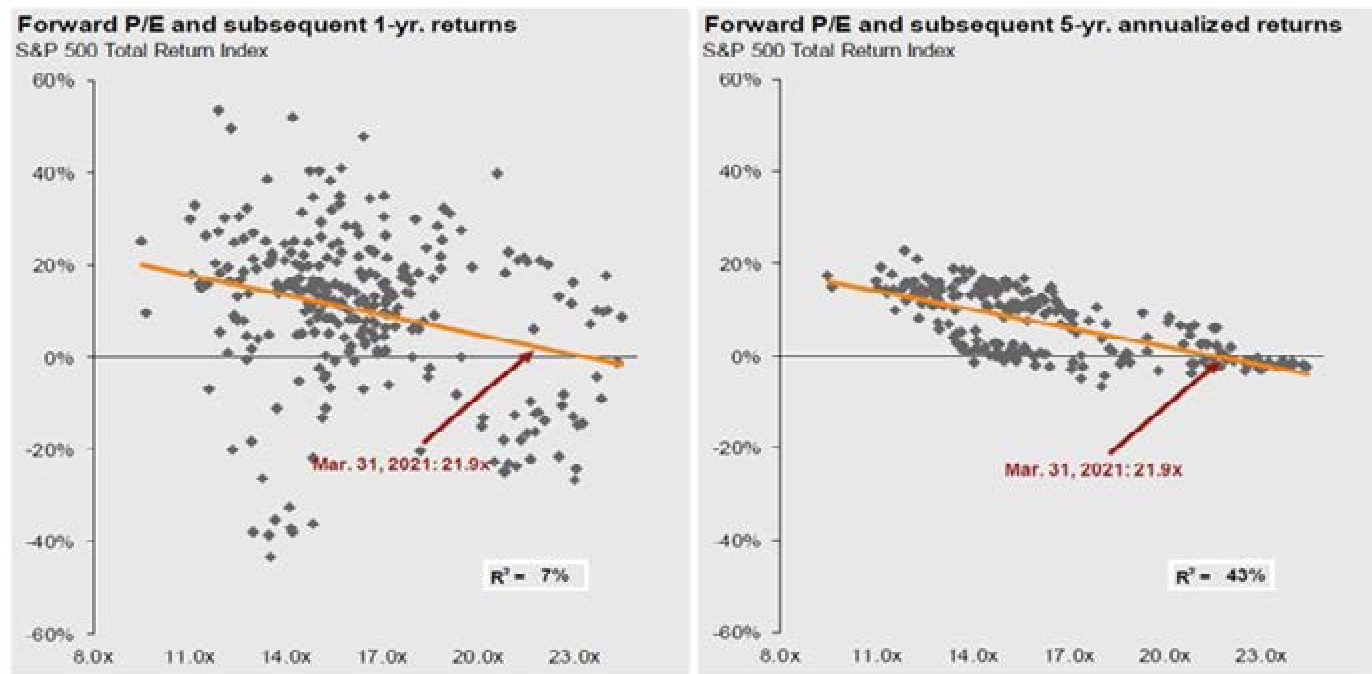
It's true that the S&P 500 Index in the U.S. is at a very high level. According to our estimates, at the end of the quarter, the S&P 500 was trading at nearly 21 times the level of expected profits and 30 times the level of profits for the last twelve months, as compared with 16x and 23x, respectively, for its Canadian counterpart.

When comparing these valuations on a historical basis, you may quickly conclude that stocks have less return potential to offer. History tells us, however, that market valuation does have a significant impact on subsequent 5-year returns, but that the correlation is more uncertain over a one-year horizon (Graph 19). Accordingly, we have rather low expectations for the cumulative performance of stock markets over the next five years, but remain optimistic about the returns for the next twelve months.

Interest-rate levels also play an important role in our perception of the balance of risks.

As balanced-portfolio managers, we believe that the relative valuation of asset classes is the centrepiece of any asset allocation strategy. Despite the quick rise in interest rates at the beginning of the year, 10-year interest rates remain at historically low levels even today. By calculating the equity risk premium (equal to the difference between the inverse of the S&P 500 price/earnings ratio and the U.S. 10-year interest rate, see Graph 20), we can see that equities remain affordable relative to bonds, and that it would take an increase of more than 1.5% in interest rates to return to a level that is merely the historical average. Stocks are therefore less expensive than they appear to be when you compare them to bonds.

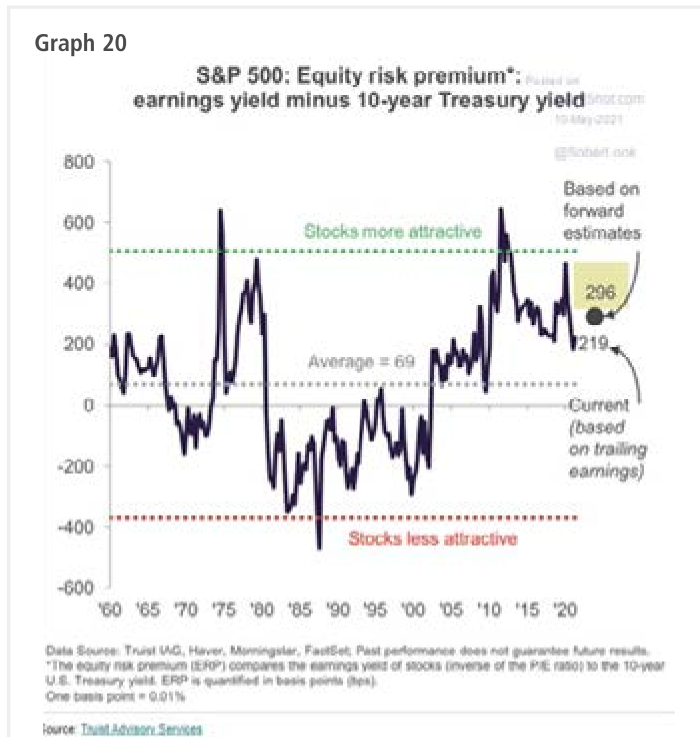
Graph 19



Source: FactSet, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning February 29, 1996. R^2 represents the percent of total variation in total returns that can be explained by forward P/E ratios.
Guide to the Markets – U.S. Data are as of March 31, 2021.

As at June 30, 2021

Graph 20



The low level of interest rates, combined with a high outlook for economic growth and inflation, lead us to remain largely underweight in bonds in our portfolios and favour cash as a risk-mitigation tool. Following the initial rise of interest rates in summer 2020, we expect them to continue rising until the end of the year, resulting in negative returns for bond portfolios. Overweighting cash helps to limit the impact of market declines on our various portfolios and to place investors in a good position to plunge back into the stock market in the event of a correction.

Overall, we currently favour adopting a neutral position in equities, underweighting bonds, and overweighting cash. These positions will evolve according to market movements, but we'll probably be buyers of stocks on weakness in the months ahead.

As for equities, we're adopting overweight positions in Canadian and European equities, offset by underweighting U.S. equities for the reasons stated in the previous section.

Our optimism about Canadian assets also extends to the Loonie, which we see rising into the 85-90-cent range by the end of the year. In the shorter term, however, we note that the position of speculative investors is somewhat overextended, that is, short positions in the U.S. dollar and long positions in the Canadian dollar are at historically high levels, creating a potential for technical decline of the Loonie against the greenback. As a result, we end the quarter with little or no hedge in our exposure to foreign currencies, but we'll seek to reinstate this hedge gradually as the market evolves.

Economic and Financial Environment (continued)

As at June 30, 2021

Group Savings and Retirement

Chart 1
Returns of the Canadian Bond Market as at June 30, 2021

Index	Returns (%)	
	3 months	YTD
FTSE Canada Universe Bond Index	1.7	(3.5)
FTSE Canada Short Term Bond Index	0.1	(0.5)
FTSE Canada Mid Term Bond Index	1.6	(3.0)
FTSE Canada Long Term Bond Index	3.7	(7.4)
FTSE Canada Federal	0.8	(2.9)
FTSE Canada Provincial	2.7	(4.7)
FTSE Canada Municipal	2.2	(4.0)
FTSE Canada Corporate	1.3	(2.3)

Chart 2
Market Returns as at June 30, 2021

Index	Returns (%)	
	3 months	YTD
FTSE Canada 91 Day T-Bill Index	0.0	0.1
FTSE Canada Universe Bond Index	1.7	(3.5)
S&P/TSX Composite Index	8.5	17.3
S&P 500 (Can. $)	6.9	12.0
MSCI - EAFE (Can. $)	3.6	5.8
MSCI - World (Can. $)	6.2	9.9
Exchange Rate (Can. $ / US $)	(1.5)	(2.8)

Chart 3
Market Returns as at June 30, 2021

Index	Returns (%)	
	3 months	YTD
S&P/TSX Sector returns		
Energy	16.1	39.6
Materials	8.0	0.6
Industrials	0.5	7.2
Consumer Discretionary	5.5	18.7
Consumer Staples	5.7	8.4
Health Care	(11.8)	21.7
Financials	9.1	24.2
Information Technology	21.0	19.7
Communication Services	10.0	17.7
Utilities	1.0	4.4
Real Estate	10.4	21.4
S&P/TSX Composite Index	8.5	17.3

Chart 4

	Tactical Allocation (0-6 Month Horizon)					Strategic Allocation (6-18 Month Horizon)				
	--	-	N	+	++	--	-	N	+	++
Money Market										
Bonds										
Duration										
Equities										
Canadian Equities										
Foreign Equities										
U.S. Equities										
International Equities										
Emerging markets										
Gold										
Foreign Currencies										
CAD vs USD										
CAD vs EUR										

As at June 30, 2021

Group Savings and Retirement

Chart 5
Economic and financial scenarios

Economic scenario

							Change since March 31, 2021	
		2019	2020	2021	2022	2023	2021	2022
U.S.	Real GDP	2.2%	-3.5%	6.6%	5.8%	2.4%	--	--
	Inflation rate	1.8%	1.2%	4.2%	3.5%	2.8%	+1.9%	+1.0%
	Unemployment rate	3.7%	8.1%	5.5%	4.2%	3.9%	-0.1%	-0.2%
Canada	Real GDP	1.9%	-5.3%	6.4%	5.1%	2.9%	+0.6%	+0.6%
	Inflation rate	1.9%	0.7%	3.8%	3.1%	2.7%	+1.7%	+0.8%
	Unemployment rate	5.7%	9.6%	7.5%	6.1%	6.0%	-0.4%	-0.2%

Financial scenario*

			Targets			Change since March 31, 2021	
		Actual	déc 21	juin 22	déc 22	déc 21	juin 22
Interest rate	Canada 10 years rates	1.39%	2.15%	2.50%	2.80%	--	--
	U.S. 10 years rates	1.47%	2.25%	2.60%	3.00%	+0.30%	+0.35%
Exchange rate	US $/Can. $	0.81	0.84	0.85	0.86	--	--
	US $/Eur	1.19	1.22	1.24	1.25	-0.02	-0.01
	Oil price (WTI). US $	73	72	70	68	+10	+5
	S&P 500	4,298	4,400	4,550	4,675	+300	+200
	S&P/TSX	20,166	21,375	22,230	23,085	+925	+780

* end of period