Quarterly Market Commentary
Fourth Quarter 2021

Markets Finish on a High Note Despite Central Bank Pivot

- The fourth quarter began in the shadow of September's selloff. Equities vaulted higher through mid-November before managing a choppy climb to finish the year.
- U.S. stocks were the top-performing major market for the fourth quarter and the full calendar year. Canada, the U.K. and Europe also performed quite well over both time frames, while China was down steeply for the quarter and year.
- In our view, ultra-low interest rates in the face of higher inflation and above-average growth may force central banks to adopt more aggressive policies than they and market participants currently envision.

SEI's Domestic View

Like the rest of the world, Canada has been on an economic rollercoaster for two years running. Rising rates of COVID-19 infections have led to restrictions on mobility and periodic lockdowns, which then ease as caseloads crest and begin to fall. In the past year, real gross domestic product (GDP) contracted in April and May as the COVID-19 wave caused by the Delta variant washed over the country. The economy bounced back in the months thereafter; growth for the year as a whole is expected to reach 4.5%, with a similar gain in 2022.

While GDP growth appears to have ended 2021 on a strong note, the New Year will likely begin on a distinctly weaker one. The country was in the midst of a violent spike in new COVID-19 cases during December as the Omicron variant began to rip through the population. Fortunately, this contagious new version of the virus has so far proven to be generally less severe than previous variants.

Among currently infected patients in the country, only 0.2% are considered as seriously or critically ill. It surely helps that residents have been diligent in getting their vaccinations. As of December 24, 77% of the population is fully vaccinated (this does not account for booster shots) and 6% is partially vaccinated. In the U.S., only 61% is fully vaccinated; 12% is partially vaccinated. (Source: Worldometer.com)

High vaccination rates and a low percentage of serious cases notwithstanding, the federal and provincial governments are again imposing restrictions on mobility and activities in order to limit the virus' spread. Germany, Italy and China are more restrictive, but Canada may well see limits increase in the weeks ahead. Stringency levels in the U.S. and U.K. remain comparatively low.

The notable differences in approach used to combat the virus are reflected in varying rates of economic growth. Between 2010 and 2019, inflation-adjusted GDP in Canada tended to track (and often exceed) the pace of its southern neighbour. Yet Canada was starting to lag the U.S. even before the pandemic hit. During the worst part of the lockdown period in the first half of 2020, the Canadian economy suffered a sharper peak-to-trough decline. The subsequent recovery also has not been quite as strong. As of the third quarter, Canada's economy was still below its fourth-quarter 2019 GDP peak, while the U.S. already was in new-high territory and almost back to its pre-pandemic growth trend. Still, compared to the other large economies, Canada continues to benefit from its proximity to the U.S. The North American neighbours remain joined at the hip, which is a good thing for Canada.

Like the U.S., Canadian businesses are facing labour-market pressures and rising input costs. The price pressures are not as severe, but they are worrisome. The Bank of Canada (BoC) has pulled back on quantitative easing; the consensus view calls for a series of policy-rate hikes in 2022, leaving the overnight rate at least a full percentage point higher than it is currently. At SEI, we do not expect the BoC to be so aggressive. Rather, like the last rising interest rate cycle in 2017 and 2018, we suspect the central bank will follow the U.S.

Federal Reserve's (Fed) lead. While policy divergences do occur, coordination is the norm—especially when Canada and the U.S. face similar economic challenges.

The Canada-U.S. rate differential on 2-year Treasury notes surged in October as investors anticipated that the BoC would hike interest rates sooner and more aggressively than the Fed. The spike did not last, but Canada's 2-year note is still about 0.2% higher than it was at the end of 2020. The exchange rate, meanwhile, is almost exactly the same as it was this time last year; although the loonie has slipped by more than 7% from its May and June peak levels. A rising interest-rate differential in favour of Canadian 2-year yields tends to be associated with the Canadian dollar appreciating versus the U.S. dollar.

At this point, it is unclear which way the spread will go from here. The exchange rate may be stuck in a narrow trading range, at least for the next few months. From a longer-term perspective, the Canadian dollar is considerably below the levels it reached during the 2010-to-2012 period. The country's exporters have since become far more competitive. Exports of goods climbed sharply in 2015 and 2016, thanks to this currency depreciation and the improving strength of the U.S. economy. More recently, the surge in oil prices has led to a sharp gain in energy exports. In 2021, Canada reported the first surplus on its current-account balance since 2008. The improvement in trade balance should provide additional support for the currency.

The economic outlook in 2022 for Canada remains upbeat. Elevated commodity prices, improving supply-chain conditions for motor vehicles and parts, and a competitive currency all bode well for growth. Of course, there are also challenges in the form of rising cost pressures, labour shortages, and the uncertainty surrounding the impact of the latest COVID-19 wave and others that may follow. A turn toward monetary tightening also is concerning, but we suspect that the BoC will raise interest rates in a cautious fashion, mimicking the U.S. Fed's approach.

In 2021, the MSCI Canada Index (total return) rose by more than 25%, nearly matching the performance of the MSCI USA Index (total return). Earnings were exceptionally strong last year, and analysts' estimates of 12-month forward earnings climbed about 35% over the period. The Canadian stock market's valuation, as measured by the forward price-to-earnings (P/E) ratio, became cheaper as a result. The market currently trades at a forward P/E of less than 15 times, a substantial 33% discount to the U.S. stock market. On an absolute basis, this earnings multiple is somewhat elevated versus history, but hardly in bubble territory. We believe investors can look forward to another solid performance for the Canadian stock market in 2022 as the economy continues its recovery from the stresses of the past two years.

SEI's Global View

Equity markets stumbled in late 2021 owing to nervousness over the latest COVID-19 surge. This wave, too, shall pass. We remain optimistic that global growth will accelerate as the Omicron wave fades.

Although there have been pockets of speculative behaviour in some areas of the financial world, we do not see the sort of widespread frenzy that would point to a serious equity correction in 2022. The economy would have to slow precipitously for reasons other than the temporary impact stemming from COVID-19 mobility restrictions; the trend in earnings would need to flat-line or turn negative.

We expect a gain in overall U.S. economic activity of around 4% in 2022—appreciably above the economy's long-term growth potential of 2%. We also expect other countries to continue to post above-average growth as they recover from the past two years' worth of lockdowns and shortages. With the major exception of China, which continues to pursue a zero-COVID-19 policy, most countries are unlikely to shut down their economies as fiercely or for as long as they did in 2020.

China's performance in 2022 is one of the key unknowns that will influence global economic growth. Consensus expectations call for a soft landing of the Chinese economy, with GDP growing by about 5% in 2022 versus 8% in the past year.

The year ahead promises to be another one of extremely tight labour markets. We think more people will return to the workforce as COVID-19 fears fade, but there likely will still be a tremendous mismatch of demand and supply.

Currently, there are 12.6 million U.S. persons theoretically available to fill 11 million job openings—the smallest gap on record. Wage gains, unsurprisingly, have climbed at their fastest pace in decades over the past 12 months. In the short term, we expect wages to continue their sharp climb as businesses bid for workers.

The U.K. also is experiencing a pronounced upswing in its labour-compensation trend. We think Brexit and the departure of foreign workers back to the Continent are aggravating the country's labour shortage. The disparity in compensation trends among the richest industrialized nations also means that policy responses are likely to diverge.

Predicting a bad inflation outcome for 2022 isn't exactly much of a risk. Where we depart from the crowd on inflation is in the years beyond 2022. We are skeptical that the Fed will be sufficiently proactive as it struggles to balance full and inclusive employment against inflation pressures that are starting to look more entrenched. We believe this will be the central bank's biggest challenge in 2022 and beyond.

We also don't think the Fed's inflation and economic projections are internally consistent. Since it projects the economy to be even closer to full employment in 2022 and beyond than it is now, we find it hard to understand why price pressures should ease so dramatically.

Even the central banks that are most likely to taper their asset purchases and raise policy rates in the months ahead (the Fed, the Bank of England and the Bank of Canada) will likely do so cautiously. By contrast, policy rates in emerging economies have already jumped. The pace of tightening is picking up, with 11 emerging countries having instituted policy-rate hikes in December alone.

It remains to be seen whether this pre-emptive tightening of monetary policy will forestall a 2013-style taper tantrum as the Fed embarks on its own rate-tightening cycle. Although emerging-market currencies have generally lost ground against the U.S. dollar during the past six months, the depreciation hasn't become a rout (with the exceptions of Turkey and the usual economic basket cases—Argentina and Pakistan). Still, the shift in Fed policy will probably represent a formidable headwind for emerging-market economies in 2022.

The People's Bank of China (PBOC) actually cut a key interest rate in December by a modest amount. This follows a reduction in reserve requirement ratios aimed at increasing the liquidity available to the economy; it will take a while for any beneficial impact to be felt on China's domestic economy, and even longer for the world at large.

In addition to the start of a new monetary tightening cycle, some economists have expressed concern about the next "fiscal cliff" facing various countries, the U.S. in particular. While there will be a negative fiscal impulse in the sense that the extraordinary stimulus of the past two years will not be repeated, we argue that the impact should be less contractionary than feared.

Perhaps economists should be more concerned about the negative fiscal impulse in the U.K., Canada, Germany and Japan. They are all facing a potential fiscal tightening equivalent to 4% of GDP this year. By comparison, the International Monetary Fund predicts that the cyclically adjusted deficit in the U.S. will contract by less than 0.5% of GDP.

We remain optimistic that growth in the major economies will be buoyed by the strong position of households. In the U.S., household cash and bank deposits were still almost $2.5 trillion above the pre-pandemic trend as of the end of September. This total is equivalent to almost 14% of disposable personal income. Excess savings in the U.K., meanwhile, have reached 10.6% of annual personal disposable income. Euro-area bank balances aren't quite as high, but still amount to 5% of after-tax income.

Investors always need to deal with uncertainty; we are focused on three main areas of geopolitical risk. We believe the most important flashpoint in terms of near-term probability and economic impact is the Russian build-up of troops on the Ukrainian border. An invasion of Ukraine could lead to a complete shut-off of gas imports from Russia to Western Europe, aggravating the existing energy shortage. It also could disrupt shipments of oil, which would have an impact across the globe.

Next is the ongoing tug-of-war for influence and military advantage between China and the U.S. The most worrisome flashpoint would be over Taiwan given its dominant position in advanced semiconductor manufacturing. An actual invasion is probably still years away, if it ever happens at all.

The third major area of concern is the Middle East and the negotiations with Iran over its nuclear development program. Two things are clear: Iran is now much closer to having a nuclear bomb, and Israel still will not tolerate such a major change in the region's balance of power. The risk of war may be low, but developments continue to head in a direction that could someday have catastrophic consequences.

International investors can be forgiven for being somewhat frustrated. Earnings growth in 2021 for developed- and emerging-market equities both exceeded the earnings gain for the U.S. As a consequence, the relative valuation of international markets versus the U.S. has become only more attractive in the past year.

But old habits die hard, and the emergence of the Omicron variant has further delayed a long overdue rotation to cheaper, more cyclical stocks that are also less correlated to bond prices.

The forward earnings trend has been quite strong in the U.S., with analyst estimates of year-ahead earnings rising more than 30% in the past 12 months. Since the S&P 500 price-only index has appreciated by "only" 27%, the price-to-earnings ratio (PE) has fallen to a year-end 2021 reading of 21 times. Compared against the history of the past 25 years, only the PE ratios recorded during the tech bubble of 1999 and 2000 were in the same ballpark. Nonetheless, it is only when earnings estimates flatten and decline that the equity market has historically begun to struggle.

The trajectory of S&P 500 earnings growth probably will slow next year, but a gain in the 8%-to-12% range seems consistent with our macroeconomic call for continued above-average growth and inflation.

In our view, the real anomaly in the financial markets is the ultra-low levels of interest rates in the face of higher inflation and above-average growth in much of the world. This may force central banks to adopt more aggressive interest-rate policies than they and market participants currently envision.

We have penciled in a 50-to-75 basis-point rise in 10-year U.S. Treasury bond yields for 2022. That gain should not derail the bull market in equities, but it could catalyze a shift away from the most highly valued, interest-rate-sensitive areas of the market into the broader grouping of stocks that have been neglected for the past several years.

Economic Backdrop

Sky-high COVID-19 cases, a volatile equity-market rally, and worry over rising interest rates can describe both the first and last weeks of 2021. An obvious difference between those two timeframes is that the prospect of widespread vaccination became reality, dealing a sharp blow to the severity of illness among the infected. A towering nine billion vaccine doses were administered worldwide through the end of 2021, rendering roughly 49% of the global population fully vaccinated.

Turning to financial markets, the fourth quarter began in the shadow of September's selloff, which was the most extended shakeout of 2021. After recovering in October, equities vaulted higher through mid-November before unrestrained inflation, tightening central-bank policy and the emergence of the Omicron variant combined for a choppy climb to finish the year.

U.S. stocks were the top-performing major market for the fourth quarter and the full calendar year. The U.K. and Europe also performed quite well over both time frames. Hong Kong and Japan had significant losses in the three-month period; Japan was up modestly in 2021, while Hong Kong had a full-year decline. Brazil and China were down steeply for the quarter and the year, with China delivering the deepest loss among major markets in 2021.

Across the U.S., U.K. and eurozone, short-to-medium-term government bond rates increased during the fourth quarter, while long-term rates declined, resulting in flatter yield curves.

Within fixed income, fourth-quarter performance mirrored the full year: inflation-indexed bonds were the top performers, followed by high yield. Most other sectors were mildly negative given the impact of rising rates, but global bonds were down by more due to currency effects. Local-currency emerging-market debt had the steepest losses for the quarter and year.

The U.S. dollar continued to strengthen against most other currencies during the fourth quarter, capping off a 6.7% full-year increase according to the U.S. Dollar Index (DXY). Commodity prices were dealt a minor setback in the fourth quarter after a steep ascent for the first nine months of 2021. The Bloomberg Commodity Index declined 1.6% during the quarter but gained 21.1% for the full year.

The U.S. Congress voted to raise the debt ceiling (that is, the federal government's borrowing limit) twice during the fourth quarter—first with an October stopgap hike of $480 billion, and then with a December increase of $2.5 trillion—which is expected to cover spending through early 2023.

President Joe Biden signed the Infrastructure Investment and Jobs Act—a multi-year infrastructure funding bill—into law during November. The initiative appropriated $1.2 trillion (including $550 billion above baseline spending), with nearly $300 billion of new spending to fund transportation projects over the next decade, another $65 billion apiece dedicated to broadband internet and power grid projects, and $55 billion reserved for water infrastructure.

The U.K. government's autumn budget traded improved benefits for tax increases. It proposed a reduction in the universal credit taper rate for low-income workers (from 63% to 55%, meaning that the credit will phase out more slowly) and an annual £500 increase in work allowances. Brick-and-mortar stores will also see more relief via a temporary 50% cut in business rates and no increase in 2022. On the revenue side, a 1.25% bump in national insurance contributions was scheduled to begin in the spring, and a long-telegraphed increase in the corporation tax remained set for 2023.

Germany's new governing coalition came together in late November. The center-left Social Democrats (SPD) secured 25.7% of ballots cast in the September election, while the progressive environmentalist Greens won 14.8% and pro-business Free Democrats (FDP) received 11.5% of the votes. As of December, SPD leader Olaf Scholz heads the government as chancellor, while FDP leader Christian Lindner serves as finance minister.

The coalition has coalesced around an ambitious series of climate-centric policy pledges, including new commercial and residential construction that host solar-power production capabilities; additional support for seaborne wind farms; and a targeted 15 million electric vehicles in service by 2030 along with the necessary charging infrastructure. The German housing market is also set to benefit from the coalition's plan to build 400,000 new apartments per year, with one-quarter of the project financed by government funds. However, questions have been raised about how the government will fund its goals given that Germany's "debt brake" will be re-instated in 2023 (limiting government borrowing to 0.35% of GDP) and that the FDP extracted a commitment to refrain from imposing new or increased taxes (in order to join the coalition).

In China, while Evergrande dominated concerns about the viability of real estate companies earlier in 2021, Fantasia Holdings Group—a much smaller developer—defaulted on a $206 million bond payment at the beginning of October. Evergrande held out until December before defaulting along with Kaisa, another large developer. The Chinese government appeared to support a plan for Evergrande to negotiate reduced repayments on its offshore bonds with international creditors.

Following its annual Central Economic Work Conference in December, Beijing stated that its top priority for 2022 would center on economic stabilization with a heavy focus on financial restraint.

Central Banks

- The Bank of Canada (BoC) held its final 2021 policy meeting on December 8. As expected, the deposit rate remained unchanged at a historically low 0.25% following the meeting. The BoC reiterated its October projections that it expects to hold rates low until economic slack is absorbed and inflation consistently exceeds 2% (the lower end of its target inflation band), which is not expected to occur until the middle of 2022. The first meeting for 2022 is scheduled for January 26.

- The Federal Open Market Committee (FOMC) shared in early-November a timeline to reduce its asset-purchase program by June. Yet by the end of November, Federal Reserve (Fed) Chair Jerome Powell expressed in testimony to the Congress that high inflation could drive the FOMC to reduce asset purchases at an accelerated pace. Indeed, following its mid-December meeting, the FOMC indicated that it intends to conclude asset purchases by March; its latest Summary of Economic Projections points to a commencement of rate hikes in 2022. Powell was nominated to serve a second term as Fed Chair by President Biden during November.

- The Bank of England (BOE) became the first major central bank to increase rates since the pandemic began; its Monetary Policy Committee (MPC) voted 8-to-1 in favour of raising the bank rate by 15 basis points (bps) to 0.25% in mid-December. The MPC's inflation forecast for spring 2022 jumped to 6% at its December meeting from 5% at its prior monthly meeting.

- Following its mid-December meeting, the European Central Bank (ECB) announced that its Pandemic Emergency Purchase Programme (PEPP) would conclude by March 2022. However, the central bank said it would rely on its long-standing Asset Purchase Programme to provide monetary support when needed, and does not anticipate an increase in benchmark rates during 2022. The ECB raised its inflation projection to 3.2% for 2022 and 1.8% thereafter as actual inflation hit a record 4.9% year over year in November.

- The Bank of Japan (BOJ) announced at its mid-December meeting that it would revert purchases of corporate bonds and commercial paper to pre-pandemic levels beginning in April. The central bank kept its rate targets on hold, however, with its short-term interest rate at -0.1% and its 10-year government bond yield target near 0%.

- The People's Bank of China (PBOC) lowered its reserve requirement ratio—which dictates the amount of money banks are required to hold in reserves—by 50 bps to 8.4% in early December, freeing up nearly $188 billion for lending activity. Later in the month, the PBOC cut its one-year loan prime rate by 5 bps to 3.8%.

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, the rate of inflation accelerated (as measured by the change in the Consumer Price Index (CPI)) to 0.2% for the month and 4.7% for the year ending November. The costs for durable goods, notably passenger vehicles and furniture, have risen due to continued supply chain disruptions. Prices for gasoline and food are also considerably higher than a year ago. Producer prices were mixed in November but up sharply over the past 12 months. The Industrial Product Price Index (IPPI) was up 0.8% in November and the Raw Materials Price Index (RMPI) slid 1.0%, while on a year-over-year basis the IPPI rose 18.1% and the RMPI jumped 36.2%. Energy prices were generally weaker in November, but remained significantly elevated from year-ago levels. Canada's labour market added 55,000 jobs in December, as the unemployment rate ticked down to 5.9%. Full-time employment rose by 123,000, while part-time jobs declined by 68,000.

- U.S. manufacturing growth remained quite elevated at the end of 2021, but continued to soften throughout the fourth quarter from its peak in July. Growing lead times for materials added to order backlogs, although the increase in unfilled orders during December was the smallest in ten months. Services sector growth accelerated in October from an August-to-September soft patch, and remained strong through the end of the year. Input and output cost increases set a series of record highs throughout the fourth quarter. The weekly number of new U.S. jobless claims continued its months-long descent in the fourth quarter—reaching the lowest levels in more than 50 years during November with less than 200,000 filings per week, and remaining close to these lows through the end of 2021. The U.S. economy expanded at a 2.3% annual rate during the third quarter, significantly below the 6.7% annualized pace in the second quarter.

- U.K. manufacturing growth essentially held steady at a high level throughout the fourth quarter after peaking in May and cooling through September. Employment in the manufacturing sector improved for 12 straight months through December, and output prices increased at the highest rate on record since 2008. Growth in the U.K. services sector ground down to a modest pace in late 2021 as activity hit a 10-month low in December. The U.K. claimant count (which calculates the number of people claiming Jobseeker's Allowance) continued to decline in November, with roughly 65,000 fewer claimants compared to the prior month—representing 4.9% of the population as of November's reading. The U.K. economy expanded by 1.1% during the third quarter and 6.8% year over year through September, a steep climb down from the second quarter's 5.4% pace (and 24.6% growth in the year through June).

- The expansion in eurozone manufacturing continued at a brisk pace during the fourth quarter, but continued to soften. Inventories of input materials grew in December at the fastest rate on record since 1998. Italy had the highest pace of manufacturing growth in the eurozone at the end of the year, while France had the lowest. Eurozone services sector growth slowed unevenly during the fourth quarter, ending in December with the weakest expansion since returning to growth in April 2021. The overall eurozone economy strengthened by 2.2% during the third quarter and 3.9% year over year through September, in line with the second-quarter pace of 2.1%, although the year-over-year figure was well below the 14.2% growth measured through June.

Market Impact (Referenced Index Returns are in CAD)

Equity markets mostly closed out 2021 on a high note, led by the U.S.—notably larger companies. Canadian equities were also among the top performers for the quarter and the year. Domestically, consumer staples, consumer discretionary and financials posted impressive gains; notable laggards included information technology and healthcare. Smaller companies were positive, but trailed well behind larger companies. With the notable exception of Japan, foreign developed markets were generally positive. Emerging markets continued to struggle as Brazil and China posted significant losses.

Despite a challenging year, fixed-income markets were up for the quarter. Government debt outperformed corporate bonds. Real-returns bonds spiked higher as elevated inflation seemed to have taken root. Residential mortgages continued to notch modest gains and were the top performers in the domestic markets. Meanwhile, short-term bonds struggled ahead of expected rate hikes in 2022. U.S. high-yield bonds were positive and outperformed investment-grade bonds for the year.

Index Data (Q4 2021)

- The S&P/TSX Composite Index gained 6.47%.
- The FTSE Canada Universe Bond Index returned 1.47%.
- The S&P 500 Index, which measures U.S. equities, rose 10.70%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, gained 6.36%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 1.80% (currency hedged) and 0.32% (unhedged).
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index that is also known as the "fear index," swung wildly during the quarter as it moved from 23.14 to 17.22. Intra quarter, the VIX was as low as 15.01 and as high as 31.12.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, moved from US$75.03 to US$75.21 a barrel to end the quarter. This modest change over the period was in no way indicative of the volatility in oil markets, as prices reached as high as US$84.65 on October 26 only to plunge to US$65.57 on December 1, before recovering.
- The Canadian dollar weakened slightly to C$1.26 per U.S. dollar. The U.S. dollar was mostly stronger versus the world's other major currencies. It ended December at US$1.16 versus the euro, US$1.35 against sterling and at 115.16 yen.

Index definitions

The **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements.

The **Consumer Price Index** measures changes in the price level of a weighted average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

The **ICE BofA U.S. High Yield Constrained Index** is a market-value weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities. Its securities have maturities of one year or more and a credit rating lower than BBB-/Baa3 but are not in default.

The **FTSE Canada Universe Bond Index** is the broadest and most widely used measure of performance of marketable government and corporate bonds outstanding in the Canadian market. FTSE Canada has been in the business of providing the benchmark performance standards for Canadian fixed income investments since 1947.

The **MSCI ACWI Index** is a market-capitalization-weighted index composed of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **MSCI Canada Index** is designed to measure the performance of the large- and mid-cap segments of the Canada market. With 91 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in Canada.

The **MSCI USA Index** measures the performance of the large- and mid-cap segments of the U.S. market.

The **S&P 500 Index** is an unmanaged, market-weighted index that consists of 500 of the largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

The **S&P/TSX Composite** is the headline index for the Canadian equity market. It is the broadest in the S&P/TSX family and is the basis for multiple sub-indices including but not limited to equity indices, Income Trust Indices, Capped Indices, GICS Indices and market cap based indices.

Glossary

Basis point refers to a common unit of measure for interest rates and other percentages in finance, a basis used to refer to an increment of 0.01%

Bull market refers to a market environment in which prices are generally rising (or are expected to do so) and investor confidence is high.

Cyclical stocks or sectors are those whose performance is closely tied to the economic environment and business cycle. Managers with a pro-cyclical market view tend to favour stocks that are more sensitive to movements in the broad market and therefore tend to have more volatile performance.

High-yield bonds are rated below investment grade and are considered to be riskier.

International Monetary Fund (IMF) promotes international financial stability and monetary cooperation. It also facilitates international trade, promotes employment and sustainable economic growth, and helps to reduce global poverty. The IMF is governed by and accountable to its 190 member countries.

Investment-grade bonds are Bonds that are believed to have a lower risk of default and receive higher ratings by the credit rating agencies.

Price-to-earnings (P/E) ratio is the ratio for valuing a company that measures its current share price relative to its earnings per-share (EPS).

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