

Looking Back: Q2 2021 in Review

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Global equity markets continued their rally upward during the second quarter. As market participants became increasingly convinced that rising inflation would prove to be transitory, interest rates declined over the quarter and equities (and risk assets in general) strengthened. In the second quarter, the S&P 500 rose 8.6%, the TSX rose 8.6%, the MSCI AC World rose 7.5% and the MSCI Emerging Market Index was up 5.1%.

The gradual progress of economies normalizing as the vaccine rollout progresses accompanied by accommodative central bank policies and expectations of further spending have provided a positive backdrop for risk assets. Solid equity market returns in the second quarter have led to very strong returns for the first half of 2021 in most major markets - the S&P 500 was up 15.2%, TSX rose 17.3%, MSCI AC World returned 12.6%, while the MSCI Emerging Market Index lagged but still returned 7.4%. While value stocks have been outperforming growth stocks since late last summer, there was a sharp reversal in this trend during the month of June as interest rates declined. In June, value stocks globally were down 1.2% while growth stocks were up 4.0%. Despite this reversal, value stocks have still outperformed growth stocks by 4.1% year-to-date.

After spiking dramatically in the first quarter, interest rates levelled off in early Q2 before declining slightly as the quarter progressed. During the quarter, the Canada 10-year yield declined from 1.56% to 1.39%, while the U.S. 10-year yield fell from 1.74% to end the period at 1.44%. These moves, accompanied by tightening credit spreads, led to positive bond market returns in Q2 and reduced some of the year-to-date losses. For the quarter, the FTSE Canada Universe Bond Index returned 1.7%, bringing the year-to-date returns to -3.5%. In the U.S., the Barclays Aggregate Bond Index returned 1.8% in Q2 and -1.6% year-to-date. Canadian preferred shares had another strong quarter, up

5.0% to bring the year-to-date returns to 14.3%.

In commodities, oil continued to benefit from the refraction trade as price moved from \$60 USD at the end of March to \$74 USD at the end of June. Gold rallied during the quarter, rising from around \$1,700 to \$1,900 by early June before selling off slightly to end the quarter around \$1,772. The Canadian dollar behaved similarly, strengthening to 1.20 during the quarter before selling off to end the quarter around 1.24, stronger than where it started the quarter.

Equities have continued to climb a wall of worry as the economic backdrop globally has continued to improve and monetary conditions have been very supportive. The recent declines in interest rates over the past few months have provided additional support to markets. However, valuations continue to rise along with prices, and on the balance of risk and reward our current positioning remains to be relatively neutral on equities.

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