MARKET REVIEW & OUTLOOK

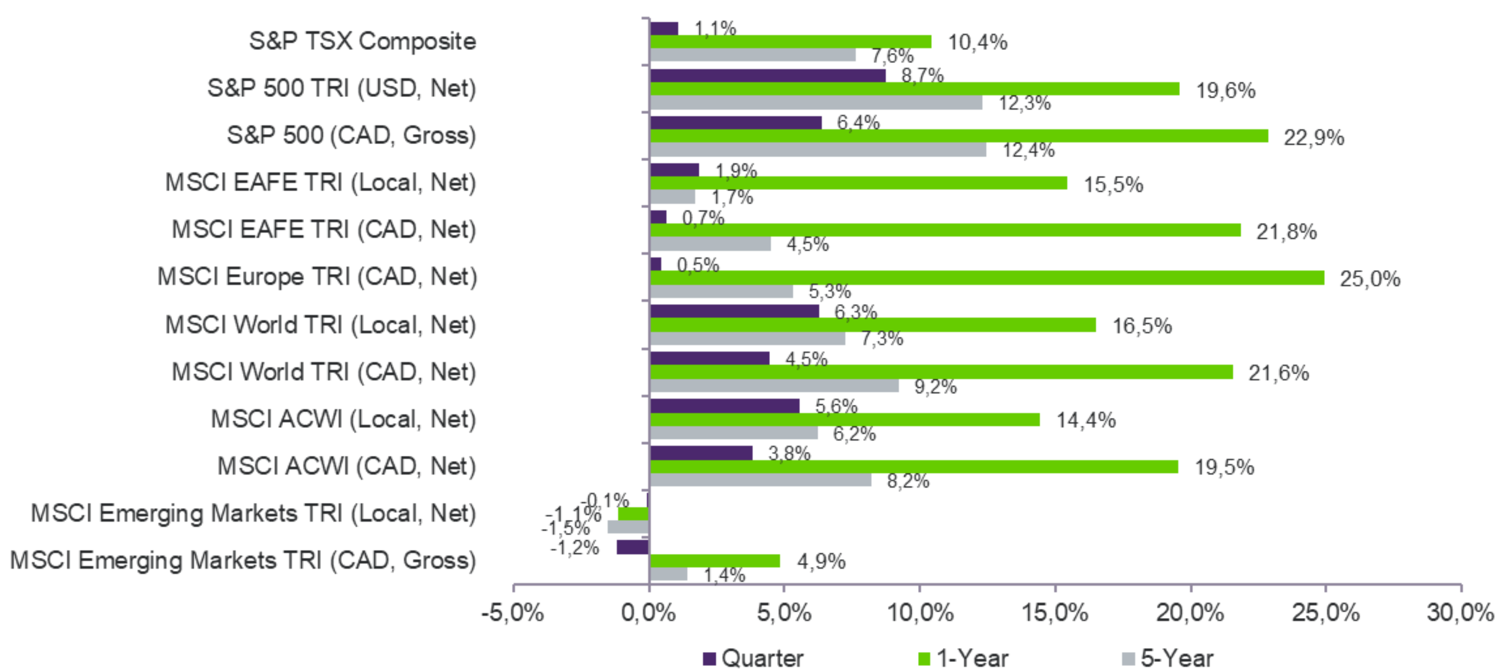
QUARTERLY NEWSLETTER

June 30, 2023

General Market Commentary

- During the second quarter of 2023, global equity markets posted strong gains, predominantly led by developed markets, particularly the US. Conversely, emerging market delivered weak performance, especially for Canadian investors since the Canadian dollar was stronger than most of the emerging market currencies. Global bond markets underperformed equities during the quarter.
- Notable event was the resolution of the US Debt Ceiling issue on US spending, which, while causing temporary relief and a market rally, was soon overshadowed by investors' continued focus on persistent inflation and recession risks. Despite the challenging geo-political and economic landscape, recent Canadian and U.S. GDP data seems to suggest the possibility of a resilient growth environment.
- On the sector front within global equities, the quarter saw a surge in Technology stocks, driven by widespread enthusiasm around advancements in Artificial Intelligence. Energy and Materials were among the worst performing sectors.
- In terms of investment style, growth significantly outperformed value in the second quarter. Russell 1000 Growth Index (CAD) posted a return of 10.4%, whereas the Russell 1000 Value Index (CAD) posted a return of 1.8%.
- Most central banks around the world moved to raise interest rates, in response to ongoing inflationary concerns. However, the US Federal Reserve deviated from this trend in June, choosing to keep bank rate on hold.
- Most major global fixed income indices were in the negative territory in the second quarter amid rising yields. Fixed income investors remained concerned with persistent inflation and uncertainties surrounding monetary policies. High yield and investment grade corporate bonds outperformed government bonds largely due to strong corporate earnings.

Global Equity Market Performance



Canadian Markets

- The S&P/TSX Composite Index lagged most major equity markets, posting a modest return of 1.1% for the quarter. This was primarily due to the index's significant weighting in the Financial, Energy, and Materials sectors, all of which underperformed the broader index. The Energy and Materials sectors lagged, due to a drop in commodities prices due to recessionary concerns. Financials underperformed due to mounting concerns regarding rising consumer debt levels.
- For a second quarter in a row, Technology sector was the top performer, returning 16.6%. This was largely due to the strong performance of its top constituent, Shopify, as well as other solid performers such as Constellation Software and CGI. Overall, six out of the 11 sectors posted positive gains. Worst performing sectors were Materials, Real Estate and Consumer staples. The Materials sector was the worst performer, posting a return of -6.9%, largely due to weak prices of industrial metals.
- Bank of Canada (BoC) raised its policy interest rate by 0.25% to 4.75% in June and plans to closely monitor inflation as it has not yet met its 2% yearly inflation target.
- Economic growth as measured by real GDP came in at 3.1% annualized growth rate in the first quarter of 2023, driven by robust household spending and net exports. This growth exceeded expectations, while inflation continued to surpass the Bank of Canada's 2% target. In May 2023, inflation dropped to 3.4%, marking its lowest level since 2021. Despite a slight easing in May, Canada's labor market remained resilient, although the economy did witness job losses and a rise in the unemployment rate to 5.2%.
- The Canadian dollar appreciated against the USD and the Yen but depreciated against the Euro and the Pound.

US Markets

- U.S. equities, represented by the S&P 500 Index, posted a gain of +6.4% in CAD. Despite rising U.S. interest rates, this surge was primarily evident in June when stocks entered a new bull market, marking an over 20% increase from the lows of October 2022, thus demonstrating the resilience of the U.S. economy.
- Top drivers of S&P 500 index were led by a few 'Mega Cap' constituents such as Apple (up 17.8% for the quarter and 49.6% for the first half of the year), Microsoft (up 18.4% for the quarter and 42.6% for the first half), Nvidia (up 52.3% for the quarter and 189.5% for the first half), and Amazon (up 26.2% for the quarter and 55.2% for the first half).
- The Technology sector, particularly chipmakers, led the surge with a +14.6% increase, driven by investors' anticipation of the significant potential artificial intelligence holds for global innovation and the overall economy. Other sectors, such as Consumer Discretionary (+12.0%) and Communications (+10.5%), also posted solid gains. In contrast, the Energy (-3.1%) and Utilities (-4.7%) sectors underperformed during this period. Utilities was the worst performer due to rising interest rates and sector rotation.
- US GDP growth for Q1 was revised to an annualized rate of 2%, surpassing the initial 1.3% estimate. Regardless, economic growth is trending down compared to prior quarters. Headline Core inflation (Consumer Price Index), slowed by a full percentage point to 3% (year over year change) in June, the lowest level since March 2021. The unemployment rate in June declined to 3.6% indicating a still very strong labor market. The Federal Reserve raised the rate by 25 basis points to 5%-5,25% , then assumed a 'hawkish pause', after ten consecutive hikes.

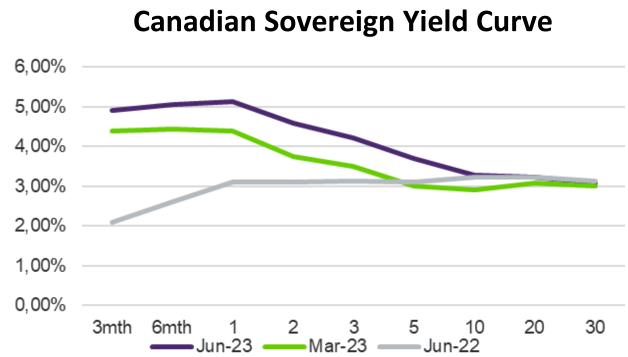
International Markets

- The MSCI EAFE index, which tracks the performance of developed countries excluding the US and Canada, rose by only 0.7% (in CAD). The MSCI EAFE index underperformed North American indices.
- Similar to other major equity indices, the Technology sector was among the top performers along with the Industrials sector. On the downside, Materials and Energy were the worst performing sectors.
- Most major central banks, except for Japan, increased interest rates to combat higher-than-expected inflation. The Bank of England increased its rate by 0.75% to 5%, while the central banks of the Eurozone and Australia raised their rates by 0.50% to 4% and 4.1%, respectively.
- The Eurozone, which is the largest component of this index, technically entered a recession with a negative GDP over the last two quarters (-0.1% in Q4 2022 and -0.1% in Q1 2023).
- The Japanese equity market was one of the strongest performing components of this index, as its stock market hit a 33-year high in June, propelled by foreign investor interest, higher than forecasted economic growth, and a depreciating Yen due to a persistent accommodative monetary policy.

Emerging Markets Equity

- Emerging market (EM) equities, represented by the MSCI EM Index, underperformed developed markets posting a return of -1.2% in CAD.
- This underperformance was due to US-China tensions and worries about China's slower than expected economic recovery. The end of COVID-related lockdowns and economic stimulus in China have had less of an impact than anticipated, leading to a lower investor interest in this region.
- In terms of region within emerging markets, Brazil was among the top performers, with better-than-expected economic growth and anticipated dovish monetary policy. Leaders in Technology and Semiconductors sectors such as South Korea and Taiwan also benefited from the Artificial Intelligence boom.

Canadian Fixed Income



Over the quarter the government bonds yield curve steepened its inversion with short-term Treasury bond yields, more sensitive to policy changes, rising higher than long-term yields. This marked the fifth consecutive quarter with an inverted yield curve.
The FTSE Canada Bond Universe Index saw a decline of 0.7%, with long-term bonds generating a positive return of 0.6%. In contrast, mid-term and short-term bonds trailed, returning -1.9% and -0.8% respectively. Conversely, high yield and investment grade corporate bonds outperformed government bonds during the quarter on the back of strong corporate earnings. Corporate bonds, which returned 0.2%, outperformed both federal and provincial bonds, posting returns of -1.5% and -0.5% respectively.

The Impact on Concert

- Global equity markets posted solid gains in the second quarter, building further on the momentum from the first quarter. Conversely, bond markets faced headwinds due to the upward movement in interest rates triggered by major central banks. Concert Funds ended the quarter with absolute returns ranging from +0.16% for the Global Equity Fund to -0.47% for the Income Fund. Given that global fixed income markets were mostly negative during the quarter, Concert funds with higher allocation to bonds were on the lower end of this return range.
- During the second quarter, asset allocation decisions had a mixed impact on the relative performance of Concert funds compared to their policy benchmarks. Asset allocation decisions was a positive contributor for the Global Balanced Growth Fund but was slightly negative for other Concert Funds.
- Within equities, an overweight position in US Equities and underweight cash allocation positively contributed to the relative performance of Concert funds. However, this was marginally offset by a small position in Canadian Small Cap equities and an overweight exposure to Emerging markets equities. US equities were one of the top performing within global equities, fueled by the success of technology giants.
- Within fixed Income, an overweight exposure to global bonds detracted from relative performance as Canadian index performed better then global counterparts in the second quarter. However, this was partially offset by underweight exposure to US investment grade.
- In terms of underlying AGF component funds, the three AGF global equity Funds (Global Select, Global Dividend, Global Equity) negatively impacted the relative performance across all Concert funds.
- With the continuing risk of a recession, enhanced diversification and a focus on high-quality investments are expected to provide advantages for the Concert Funds.

Investment Clarifications

- The S&P/TSX Composite Index is a capitalization-weighted index designed to measure market activity for securities listed on the Toronto Stock Exchange. It is an index of stocks considered to be generally representative of the Canadian equity market.
- The S&P 500 Index is a market capitalization-weighted index of roughly 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.
- The MSCI EAFE Index is an index that covers 21 international markets apart from Canada and the United States. The acronym stands for Europe, Australasia, and the Far East, and represents the equity markets of developed markets outside of North America.
- The MSCI World Index is a market capitalization-weighted index of 1,500+ stocks from 23 countries (including the United States and Canada) and covers 85% of the free float-adjusted market cap of each country. It is considered representative of stocks in global developed markets.
- The MSCI Emerging Markets Index captures large-and-mid cap representation across 26 Emerging Markets (EM) countries, and represents the equity markets of emerging countries and economies.
- The FTSE Canada Universe Bond Index measures the performance of investment grade domestic government and corporate bonds.
- The FTSE Canada Canadian Treasury Bill 91 Day Index tracks the performance of the Government of Canada 91-Day Treasury Bills.

Mutual funds are offered by PFSL Investments Canada Ltd, mutual fund dealer. The head office is in Mississauga, Ontario