

MONTHLY INSIGHT

“Canadian stocks do have a far closer relationship with emerging market stocks, both currently and over time, than with U.S., European or even Asian stocks.”

12.5 Year Correlation with Canada

S&P 500 C\$	0.46
MSCI EAFE C\$	0.61
MSCI World C\$	0.60
MSCI Europe C\$	0.57
MSCI Asia C\$	0.54
MSCI Emerging Mkts C\$	0.75

This table shows the correlation between various global equity benchmarks and the TSX / S&P Composite Index from December 2002 to June 2015. It confirms that over this 12-1/2 year period, Canadian stocks are more highly correlated with emerging market stocks than any other market group.

CANADA - AN EMERGING MARKET?

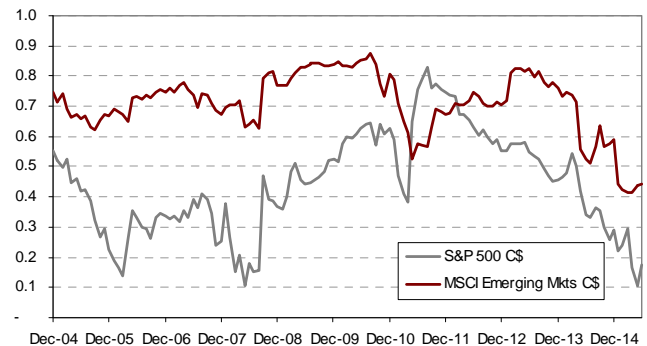
Emerging market economies have generally undertaken economic reform programs that are designed to propel them to stronger and more sustainable economic performance, as well as producing greater efficiency and transparency. As developing countries they are expected to generate higher returns, but that also comes with greater risks. Many are regional powerhouses with large populations and abundant natural resources. They have also been the greatest driver of commodity prices because they are responsible for most of the incremental commodity demand, as developed nations are slowing down or reducing consumption.

The MSCI Emerging Markets Index is the de facto gauge designed to measure the stock markets of countries whose economies are still considered underdeveloped. It captures the performance of large and mid cap stocks across 23 countries, constituting roughly 80% of the global population. However these markets only represent about 20% of the world's economy. Companies that are active in these markets should be able to rapidly increase profits and dividends, which in turn should generate higher returns. However in many cases it does not work out that way, as the developing markets are still part of the global picture and the bigger nations can still dominate their smaller brethren.

To be clear Canada is not considered to be an emerging market economy. Canada has an abundance of commodities, much of what the world needs, but it is also a wealthy, peaceful country that is often overlooked by global financial markets. Canada enjoys three fundamental strengths that make it unique: good government; a tolerant and open culture; and an almost unmatched amount of natural resources. It is this last point that actually steers the perception that Canadian stocks do in fact closely resemble emerging market stocks in many ways.

Contrary to popular belief, Canadian stocks do have a far closer relationship with emerging market stocks, both currently and over time, than with U.S., European or even Asian stocks. The chart to the right shows the rolling 2 year correlation between the monthly returns of the TSX / S&P Composite Index, the MSCI Emerging Markets Index and for comparison purposes the S&P 500 Index (all returns were in C\$ terms) over the past 10 years. The data to the left shows the correlation between various global equity benchmarks and the TSX / S&P Composite Index from December 2002 to June 2015. This information confirms that over the 12-1/2 year period, Canadian stocks had the highest correlation with emerging market stocks. Additionally, with a short exception in 2010 (see chart when the correlation with U.S. stocks exceeded the correlation with emerging market stocks) Canadian stocks have moved in a closer relationship with the emerging markets index than any other group of stocks from around the world.

Clearly Canadian equities perform similarly to those in emerging markets. Given the heavy skewing towards commodity producing companies in these markets this is understandable. But because Canada is much less volatile and normally without the worries over political upheaval or accounting irregularities that cause investors to shy away from other locales, the true similarities are really much fewer than the differences.



This chart illustrates the rolling 2 year correlation between the monthly returns of the TSX / S&P Composite Index and the MSCI Emerging Markets Index. For comparison purposes the correlation with the U.S. market (S&P 500 Index) is shown in grey.

MARKET DATA

31 JULY 2015

Index Total Returns (%) (C\$)

	1 Month	1 Year	5 Years
S&P TSX	-0.3	-2.9	7.4
S&P TSX High Dividend	-3.7	-11.8	8.8
S&P TSX Small Cap	-6.4	-19.7	1.0
S&P TSX Preferred Shares	-4.1	-11.5	1.4
S&P 500	7.2	34.5	22.8
Russell 2000 (US Small Cap)	3.9	33.8	20.4
MSCI EAFE	7.2	21.2	14.9
MSCI World	7.0	27.7	18.9
MSCI Europe	7.1	16.9	11.5
MSCI Asia	1.2	16.7	9.0
MSCI Emerging Markets	-2.1	3.2	4.2

Currencies:	US\$		
(%) (C\$)	-5.1	-20.5	-5.0
	EURO	3.6	-1.2
	GBP	4.4	11.5
	YEN	3.7	0.0

Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	1.4	7.1	5.3	1.83
Short Bonds	0.4	3.7	3.0	1.00
Mid Bonds	1.6	7.8	6.1	1.84
Long Bonds	2.8	11.6	8.4	2.96
Federal Bonds	1.3	6.2	4.1	1.07
Provincial Bonds	2.1	9.8	6.7	2.16
Corporate Bonds	0.9	5.3	5.6	2.39
Real Return Bonds	2.1	5.1	6.4	0.25
91 Day T-Bills	0.0	0.7	0.9	0.40

Barclays Aggregate Bond (US\$)	0.7	2.8	3.3
--------------------------------	-----	-----	-----

Commodities:	Index		
(%) (US\$)	-14.2	-42.7	-8.2
	Oil	-20.8	-52.0
	Gold	-6.5	-14.6
	Wheat	-23.1	-36.7

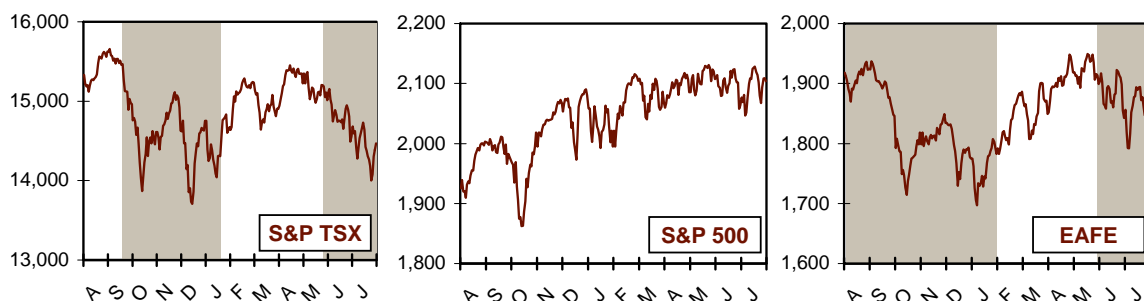
Sector Returns (%)

	S&P TSX (C\$)				S&P 500 (US\$)				MSCI EAFE (US\$)			
	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight
Consumer Discretionary	2.9	26.9	15.8	6.3	4.7	21.8	20.8	12.3	0.8	5.8	10.1	13.2
Consumer Staples	7.2	37.5	22.2	2.4	5.3	16.2	13.1	9.2	5.2	3.2	8.8	11.0
Energy	-9.0	-41.1	-7.9	21.6	-7.8	-27.7	4.7	7.9	-1.3	-29.3	-2.8	5.6
Financial Services	-0.3	-5.4	6.6	36.1	3.0	12.3	11.4	15.8	2.0	-0.9	3.3	25.7
Health Care	10.5	65.8	29.9	6.0	2.7	25.6	21.7	15.9	6.8	10.7	14.1	11.7
Industrials	2.7	-2.5	13.0	8.3	0.1	4.6	12.2	10.5	0.7	-1.9	5.3	12.6
Information Technology	7.7	28.3	13.0	2.3	2.9	11.0	15.0	20.1	-0.9	2.3	4.2	4.9
Materials	-14.7	-30.3	-10.9	10.5	-5.0	-6.2	8.3	2.6	-3.2	-16.0	-2.1	7.5
Telecommunication	3.2	10.1	9.7	4.5	-1.1	-6.5	6.6	2.5	3.6	4.4	5.7	4.5
Utilities	2.7	0.9	1.7	2.0	6.0	6.6	7.7	3.2	3.9	-7.6	-2.9	3.3
Growth Index	2.8	16.7	8.3		3.5	13.6	15.8		2.4	1.5	6.5	
Value Index	-2.1	-12.5	3.3		0.2	4.0	11.7		1.7	-6.8	3.3	

Index Charts

12 Months ending July 2015

Grey shaded areas indicate periods of stock index decline.



This report may contain forward looking statements. Forward looking statements are not guarantees of future performance as actual events and results could differ materially from those expressed or implied. The information in this publication does not constitute investment advice by Provisus Wealth Management Limited and is provided for informational purposes only and therefore is not an offer to buy or sell securities. Past performance may not be indicative of future results.

While every effort has been made to ensure the correctness of the numbers and data presented, Provisus Wealth Management does not warrant the accuracy of the data in this publication. This publication is for informational purposes only.



www.provisus.ca

Follow Us On



258 Adelaide St. E., Suite 402
Toronto ON M5A 1N1

Phone: 416-933-1111
Toll Free: 1-877-PROVISUS (877-768-4787)
Fax: 416-933-2222
E-mail: salesandservice@provisus.ca