Markets Adapt in a Season of Change

Quarterly Market Commentary

First Quarter 2021

- Globally, the cyclically sensitive energy and financial equity sectors led at a distance for the second consecutive quarter, while defensive consumer staples had the only negative performance of the period.
- U.S. President Biden signed an aid package totaling $1.9 trillion into law on March 11, and announced a $2.3 trillion package targeted at modernizing infrastructure and a range of other priorities on the last day of March.
- Investors are anticipating the return to a more normal world. This is reflected in the rapid rise in bond yields, the most important change in the financial environment so far this year.

SEI's Domestic View

While our neighbours to the South are going back to school in person, eating out in restaurants and—in some states—are not even required to wear masks in public places anymore, Canada is going in the opposite direction. Granted, caution has been amply rewarded—the country has experienced far fewer confirmed cases than the U.S. (26 thousand per million population versus 92 thousand) and deaths (606 per million versus 1,660) over the course of the pandemic[1]. Still, cases are rising again in Canada and Provincial governments are warning that reopening measures will need to be delayed.

Dealing with COVID fatigue for another few weeks just as it is getting nicer outside is bad enough. Seeing the lack of progress on the vaccination front is even harder. Only 12.3% of all Canadians have received at least one shot of vaccine as of March 29. This share is not much better than most European countries, and lags well behind the United Kingdom and the United States–as well as several other countries that are far less developed economically. The share of the Canadian population fully vaccinated against COVID amounts to a mere 1.8%, slightly behind Brazil. Meanwhile, the U.S. is speeding along and is approaching 16%[2].

This poor performance on the vaccination front is surprising, given the fact that Canada had contracted for enough vaccine to give one jab to each Canadian nine times over, the most of any nation. And, in just the past week, the Canadian health authorities have slowed the inoculation process by recommending that people under the age of 55 avoid getting the AstraZeneca vaccine owing to concerns about possible blood clots. Europe's drug regulator, the European Medicines Agency, looked at this issue and determined the vaccine was safe and effective and did not increase the risk of blood clots (although Germany and some other countries also have decided to limit usage to older people).

Canada's economic recovery trails both the U.S. recovery and economist's expectations based on Citigroup's Economic Surprise Index (ESI) for the two countries. A three-month moving average is used to smooth out the weekly gyrations and then the U.S. ESI is subtracted from the Canadian metric. When the line is in positive territory, Canadian data surprises to the upside (relative to economists' expectations) are more positive than that for the U.S. By this measure, the rebound in Canadian economic activity relative to expectations lagged badly in August, but mainly because the U.S. data were so incredibly strong. As expectations adjusted, the differential subsequently narrowed, but there has been some additional deterioration in Canada's relative performance in the past month.

Equity investors, in the meantime, have been ignoring the prospect of further delays in the economy's return to normalcy. Canadian equities literally beat the world in the first quarter, surging 8.3% in total-return terms through March 31, as measured by the MSCI Canada Index. The MSCI ACWI ex USA Index managed a 2.2% gain, while the MSCI USA Index rose 5.5%.

The MSCI Canada Index is a highly concentrated one. Financials make up 36% of the market's total capitalization, and only four other sectors (energy, information technology, materials and industrials) make up another 47%. One company—Shopify—accounted for 8.4% of the MSCI Canada index weight at the end of February, and comprised almost 70% of the information technology sector weight.

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[1] Source: Our World in Data.

[2] Source: Our World in Data.

The Canadian stock market's composition was in the sweetest spot to benefit from the worldwide forces driving prices during the first quarter. The Canadian stock market is definitely geared to the favourable monetary and fiscal backdrop that has become a feature of all the major economies. It also remains directly exposed to developments in the commodity markets.

The widening of the yield curve this year has certainly been a helpful factor for Canada's banks and other financial services companies. SEI's managers are neutrally positioned toward the sector, however. Valuation is one consideration. Although the overall Canadian stock market appears reasonably priced versus global markets, its financial sector trades at a 25% premium versus its MSCI World counterparts, measured on a price-to-book value basis; excluding the U.S., the financial-sector valuation premium reaches 50%. Portfolio managers have been sceptical about the high valuations sported by Canada's banks. This scepticism is reflected in the price performance of the sector, which has lagged the global-sector benchmark over the past 12 months.

One longstanding concern of economists about the Canadian economy and its banks is the high degree of household indebtedness and exposure to the housing market. While Canadians participated fully in the international housing bubble of the mid-2000s, they did not experience much of a bust. Real home prices began rising again in 2009, and actually picked up pace in 2017. Another surge is currently underway, but with other countries joining in on the fun[3].

Households in Canada have been willing to bear high debt-service costs to keep the good times rolling in the housing market. Unlike U.S. households, Canadians never pulled in their horns during the global financial crisis. The household debt service ratio reached a new all-time high just prior to the onset of the pandemic. Although the ratio has fallen back to a level last seen in 2015, the factors behind that decline are policy-driven in the form of last spring's plunge in short-term interest rates and COVID-related mortgage deferrals. The behavioural contrast with U.S. households since 2009 is stark[4].

In all, the Canadian stock market should continue to benefit from the global economic recovery and the particularly sharp gains likely to be recorded in U.S. business activity. But outperformance versus the U.S. and other countries on a relative basis appears to be very dependent on a strong pricing environment for oil, metals and other commodities, and a continued levitation of home prices. A ramp-up in vaccinations and a return to normal business conditions domestically would also be a big help.

SEI's Global View

The war against COVID-19 is not over, but the path to victory has become clearer. Investors are anticipating the return to a more normal world. This is reflected in the rapid rise in bond yields, the most important change in the financial environment so far this year. This jump has caused outsized price drops in long-term fixed-income securities and has helped fuel the sharp rotation in the equity market away from expensive growth shares and into value-oriented and cyclical sectors, both in the U.S. and internationally.

At the start of the year, most economists and bond investors expected higher rates. Few, however, predicted the speed and extent of the increases. While yields on U.S. sovereign debt are setting the pace, they are rising in other countries too.

With the passage of the latest U.S. fiscal stimulus package, the cumulative amount of U.S. fiscal support over the past 12 months totals a remarkable $6 trillion, approaching 30% of U.S. gross domestic product (GDP). The Federal Reserve (Fed) has gone to great lengths to protect the bond market from the rising tide of Treasury issuance with its purchases of outstanding issues. In the 12 months ended March 26, 2021, the Fed has bought $2.1 trillion of Treasury securities; just one month prior, the federal deficit over the past 12 months amounted to $3.55 trillion[5].

Higher bond yields may cause bouts of indigestion for equities, but they should not derail the bull market (market environment in which prices are generally rising (or are expected to do so) and investor confidence is high). We expect to see cyclical and value-oriented shares continue to advance relative to growth and defensively oriented sectors. In most cycles, value shares outperform growth when the yield curve is rising or is very wide (rates on long-term Treasury bonds are well above those on short-term securities). Value's performance against growth bottomed on September 1, and has been on a tear since.

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[3] Source: Federal Reserve Bank of Dallas
[4] Source: Bank for International Settlements, SEI.
[5] Source: Conference Board, ECRI, European Central Bank, Federal Reserve Board, SEI. Fed holdings data as of 3/26/2021; federal budget deficit data as of 2/26/2021

While value-oriented shares have been making a comeback against growth in the U.S., other countries' equity markets are making a comeback against the US.

Japan has been a strong performer among countries with the highest market capitalizations. The economy has benefited from strong exports to China and the U.S. over the past year. The country's real GDP at the end of 2020 was only 1.3% below the year-ago level, better than most other developed countries, including the United States.

France also has seen a 20%-plus gain in its equity market since August. This might be an even greater surprise than the run-up in Japanese share prices, since the country has been enduring a difficult COVID-19 wave like much of Europe.

Although the U.K. has lagged the MSCI World Index over the past seven months, its 14.53% total return nonetheless was slightly ahead of that of the U.S. Considering all the uncertainty surrounding Brexit and the harsh lockdowns associated with COVID-19 in recent months, this is not a bad outcome.

As spring arrives and lockdowns end on the back of the country's successful vaccination effort, we look for the U.K. to experience a strong recovery in consumer demand and business activity that should outpace the rest of Europe's.

U.K. government policy remains supportive in the near term. But the recently-proposed fiscal budget appears rather restrained compared to the measures taken by the Biden Administration, adding only about 3% of GDP to the budget deficit for the 2021/22 fiscal year. From fiscal year 2023/24 and beyond, policy actions begin to reduce the deficit, mostly through an increase in the corporation tax rate from 19% to 25% and through the freezing of income tax thresholds.

Although not as high as the valuation metrics found in the U.S. equity market, shares outside the U.S. still appear expensive. Currently, the MSCI World ex USA Index is priced at almost 17 times the earnings per share forecast for the next 12 months, the highest level since 2004.

To repeat, developed equity markets still look cheap compared to the U.S. The forward price-to-earnings ratio for the MSCI USA index is still above 22. The MSCI World ex USA Index therefore trades at an unusually wide 25% discount. Although longer-term growth differentials justify a structurally higher multiple for U.S. equities, rebounding economies and rising interest rates should lead to a narrower valuation gap.

The jump in U.S. bond yields this year has raised investor concerns that emerging markets will be the victims of a 2013-style taper tantrum. Rising rates are a headwind, but we believe emerging economies are generally in a better position to withstand the pressure than they were eight years ago. Strong growth in the world economy over the next year should help lift most emerging markets. World trade volumes, for example, had already reached pre-pandemic levels by the end of last year. Over the course of 2021, the expansion in trade should continue. When trade volumes are strong, developing equity markets tend to perform well against those of the economically advanced countries.

We believe the economic backdrop strongly supports cyclical and value-oriented equities in the emerging markets, just as it does in developed markets. The MSCI Emerging Markets Value total-return Index is highly correlated with industrial commodity prices, which have already vaulted higher from their year-ago lows.

We project that more commodity price gains are on the way. Strong manufacturing and construction demand in the U.S. and China, recovery in Europe and Latin America as vaccines become more widely available, the global push into electric vehicles and other climate projects, and the major infrastructure package that is next on the Biden Administration's to-do list all promise to stoke demand for metals and other commodities.

Emerging economies also look less susceptible to a 2013-style taper tantrum because their external positions are much healthier. Current account balances as a percentage of GDP are generally much smaller now than eight years ago. Emerging-market local-currency and US-dollar bond yields have moved higher this year, but the increase has so far been quite modest. Option-adjusted spreads are still near their lows of the past three years, certainly not qualifying as a taper tantrum. Granted, some big countries face continuing problems. Besides Turkey, debt dynamics among the larger countries appear most worrying in Brazil and South Africa. However, most of the debt in these two countries is denominated in local currency, allowing their governments to engage in some form of financial repression (like quantitative easing) in order to temper the pressure on their bond markets.

SEI's base case is an optimistic one. Developing countries will likely take longer to reopen fully since vaccination distribution will take time. Yet, even these countries will benefit economically from the upswing in developed-market consumer demand.

Having confidence is not the same as being complacent, however. Beyond COVID concerns, investors will be increasingly focused on the next multi-trillion dollar U.S. infrastructure package. Tax increases on corporations and high-income households will also be part of this package. Compromises will be needed to keep the Democratic caucus unified.

Generally speaking, the tax and regulatory changes championed by the Biden administration are not business- or equity-market friendly. But the same could be said of the economic policies pursued during the Obama Administration. That did not prevent one of the strongest and most enduring bull-market runs in U.S. history. We caution against making broad asset-allocation changes based on perceived shifts in the political winds.

As for monetary policy, we will be watching whether the Fed can maintain its stance of a near-zero federal funds rate through 2023. If the acceleration in inflation proves stronger and longer-lasting than investors expect, bond yields could climb appreciably from today's levels.

If the Fed accelerates policy rate hikes, we would expect a neutral-to-negative reaction in equities and other risk assets. Suppressing the rise in bond yields through even more aggressive policy actions, on the other hand, could lead to a weaker dollar and a sharper investor focus on inflation-hedging. Equity valuations could get even more expensive than they are now as investors grow even more exuberant. Interesting times, indeed.

Economic Backdrop

The first quarter of 2021 was marked by transitions. Geopolitically, the federal government came under the leadership of the Biden administration and unified control of his Democratic Party in the Congress, while the U.K. bid the European Union (EU) adieu after more than four years of anticipation.

This season of change was perhaps most evident in the trajectory of COVID-19's toll: case counts and daily deaths began the calendar year at (or near) their all-time peaks in many parts of the world, which created a sense for much of the quarter that the state of COVID-19 affairs was improving—albeit from a bleak starting point. The increasing availability of vaccines boosted this impression. However, case counts began rising again in several countries near the end of the quarter, and herd immunity was estimated to still be a couple months away at best, leading to the extension or re-imposition of varying restrictive public health measures around the globe.

Forward-looking capital markets focused on the brightening outlook throughout the first quarter. Globally, the cyclically sensitive energy and financial equity sectors led at a distance for the second consecutive quarter, while the defensive consumer staples sector was the only negative performer.

At the country level, Chile delivered the first quarter's top equity market gain. It has the world's largest copper reserves and is responsible for roughly one-third of global copper output. It has also established one of the most expedient vaccination programs on the planet. Energy producers Saudi Arabia and UAE were the next-best performers. Among major markets, Hong Kong had the best performance, followed by the U.K., the U.S., Europe and Japan. Mainland Chinese shares were slightly negative.

As equity performance implies, commodities delivered large gains on the anticipated transition back to normal life. The West Texas Intermediate crude oil price increased by 21.9% during the quarter. OPEC+ (the Organization of the Petroleum Exporting Countries, led by Saudi Arabia—plus Russia) announced on April 1 a planned increase in crude oil production beginning in May and escalating to more than 2 million additional barrels per day by July.

Government bond rates in major developed countries generally increased during the first quarter, and yield curves steepened as longer-term rates rose by more than shorter term rates. The greatest increase in long-term rates came during February, and was most pronounced in the U.S., although U.K. and EU rates followed a similar path. In the U.S., short-term rates fell throughout the quarter, while they only began falling in the U.K. and EU during March. The 10-year Treasury rate nearly doubled during the quarter—moving from 0.93% to 1.74%.

President Biden signed an aid package totaling $1.9 trillion into law on March 11, providing funding for extended and expanded unemployment benefits, direct stimulus payments, child tax credits, schools, state and local governments and elsewhere.

On the last day of March, Biden announced a $2.3 trillion package targeted at modernizing travel and utility infrastructure, care for the elderly and disabled, manufacturing, affordable housing and expanded access to broadband internet, coupled with a broad low-carbon electricity generation mandate. This was the first of a two-part long-term economic plan with costs spread over eight years; the second part will focus on childcare and health care, and more details are expected in late April. The price tag for Biden's proposal would be offset by increasing the corporate tax rate from 21% to 28% for a 15-year period and raising taxes on overseas corporate profits.

The Biden administration revisited U.S. tariffs in March, agreeing with the EU to suspend $4 billion in EU tariffs on U.S. goods and $7.5 billion in U.S. tariffs on EU goods for a four-month period in an effort to negotiate a resolution. A similar (but smaller) truce was made with the U.K. U.S. tariffs on Chinese goods, however, would remain in place, according to U.S. Trade Representative Katherine Tai.

In the U.K., Chancellor of the Exchequer Rishi Sunak's Spring Budget announcement contrasted upfront spending and tax incentives with higher taxes in the coming years. The budget extends income replacement schemes for furloughed employees and the self-employed, provides payments for non-essential retail, hospitality and leisure businesses, and restart grants for businesses that were required to shut down, among other programs.

The budget also offers nearer-term investment incentives for businesses—principally in the form of a 130% tax credit for capital expenditures over the next two years, followed by an increase in the corporation tax rate from 19% to 25% in 2023. According to the Office for Budget Responsibility, a five-year freeze on the tax-free personal allowance and higher tax rate threshold is projected to create 1.3 million new taxpayers and push 1 million taxpayers into a higher tax bracket, raising $8 billion in tax revenue between 2022 and 2025.

Central Banks

- The Bank of Canada (BoC) held its policy rate firm at a historically low 0.25% during the quarter. Following its March 10 meeting, the BoC indicated that it would likely continue its asset purchases and maintain the current level of policy rates until its inflation objective is sustainably met. The next scheduled meeting is on April 21.

- The Federal Open Market Committee (FOMC) held the federal funds rate near zero throughout the first quarter and continued its asset purchases pace ($80 billion in Treasurys and $40 billion in agency mortgage-backed securities per month). Its latest Summary of Economic Projections (SEP), released in mid-March, showed marked improvements in 2021 estimates for GDP and employment, as well as a significant increase in the inflation rate, compared to the December SEP. Fed Chair Jerome Powell followed the March meeting by communicating that the FOMC would not seek to pre-empt rising inflation with tighter monetary policy.

- The Bank of England's Monetary Policy Committee (MPC) kept the bank rate at 0.1% and retained a maximum allowance for asset purchases of £895 billion throughout the first quarter. Following its early-February meeting, the MPC communicated that it had no intention of lowering rates into negative territory within the next six months; by mid-March—faced with rising rates—the MPC stated it wouldn't increase rates "at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably."

- The European Central Bank (ECB) announced plans in mid-March to increase the pace of asset purchases under its €1.85 trillion Pandemic Emergency Purchase Programme (PEPP) relative to the speed and size of purchases made in early 2021. This move is intended to counter the negative economic impact of rising rates. The ECB's latest forecast showed a modest improvement in GDP for 2021.

- The Bank of Japan (BOJ) detailed the results of its Assessment for Further Effective and Sustainable Monetary Easing, which recommended establishing a program subsidizing banks to compensate for the impact of negative interest rates. Other changes generally concerned shifting to market interventions on an as-needed, rather than a programmatic, basis. The BOJ established a band in which the 10-year Japanese government bond rate would be allowed to fluctuate before intervening with purchases to control the level. Exchange traded fund (ETF) and Japan real estate investment trust (J-REIT) purchases also remained part of the policy mix, but rather than making routine purchases, the BOJ will shift to intervening when faced with market weakness. The central bank also plans to continue purchasing corporate paper and bonds to a total of about ¥20 trillion through September 2021.

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

- According to Statistics Canada, the rate of inflation (as measured by the change in the Consumer Price Index (CPI)) was up just 0.1% for the month and 1.1% for the year ending February. Gasoline prices continued to support inflation as they were up 6.5% in February and 5.0% over the past year—the first annual increase since February 2020. Producer prices were up sharply, indicating there could be future inflation at the consumer level as businesses attempt to pass along increased costs. The Industrial Product Price Index (IPPI) was up 2.6% in February—its largest monthly increase since January 1980 (3.8%)—and the Raw Materials Price Index (RMPI) was up 6.6%. On a year-over-year basis, the IPPI rose 7.1% and the RMPI jumped 17.1%. Canada's labour market had notable gains as employment rose by 303,000, of which 175,000 were full-time jobs. Unemployment dipped 0.7% to 7.5% in March—its lowest level since February 2020.

- U.S. manufacturing growth continued to increase at robust levels throughout the first quarter. U.S. services sector growth also accelerated throughout the first quarter starting with a substantial increase in the rate of expansion during January. New U.S. jobless claims climbed back to nearly 1 million per week in mid-January before declining unevenly to almost 700,000 by the end of the quarter. The overall U.S. economy grew by a 4.3% annualized rate in the fourth quarter, down from 33.4% during the third quarter's huge rebound.

- U.K. manufacturing growth slowed to a modest pace in January before accelerating through February and March to end the first quarter with a robust expansion. U.K. services activity contracted sharply in January and essentially maintained pace in February before returning to strong growth in March. The U.K. claimant count (which calculates the number of people claiming Jobseeker's Allowance) decreased slightly in January to 7.2%, then jumped in February to 7.5%, tying August 2020 for the highest level since 1995 and representing about 2.68 million total claimants. The overall U.K. economy grew by 1.3% during the fourth quarter of 2020, down from 16.0% during the third quarter's sharp recovery, and contracted by 7.3% year over year through the fourth quarter.

- Growth in eurozone manufacturing activity started at healthy levels in January before climbing through February and March to a red-hot pace. Eurozone services, meanwhile, continued to contract throughout the first quarter, worsening through January and February after a partial recovery in December, and then improving in March to the mildest levels since September. The overall eurozone economy contracted by 0.7% during the fourth quarter of 2020 after expanding by 12.4% during the third-quarter snapback.

Market Impact (Referenced Index Returns are in CAD)

Global equities continued to rally with Canadian equities among the global leaders. Domestically, the healthcare sector posted impressive gains; energy, financials, consumer discretionary and small companies also notably outperformed the broad market. Meanwhile, materials and former market-leader information technology declined. U.S. stocks were strong as well, led by smaller companies. Other international markets such as the U.K. and Europe were generally positive, although Japan was essentially flat for the quarter. Emerging markets were mixed as India notched gains, but China and Brazil struggled.

Fixed-income markets generally declined as investors flocked to riskier assets and longer-term rates rose sharply. Real-return bonds, which tend to have longer maturities and thus are more sensitive to interest-rate changes, lagged the most in this environment. Corporate debt continued to outperform government bonds, while residential mortgages were a bright spot with modest gains. U.S. high-yield bonds were positive on a currency-hedged basis, aided by higher oil prices and their riskier profile.

Index Data (Q1 2021)

- The S&P/TSX Composite Index gained 8.05%.
- The FTSE Canada Universe Bond Index returned -5.04%.
- The S&P 500 Index, which measures U.S. equities, rose 4.75%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, returned 3.16%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 0.88% (currency hedged) and -0.45% (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," jumped above 28 in late February and early March, but overall declined from 22.75 to 19.40 by the end of the quarter.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, rose from US$48.52 to a peak just above US$62.00, before settling at US$59.16 a barrel to end the quarter.
- The Canadian dollar weakened slightly to C$1.26 per U.S. dollar. The U.S. dollar also strengthened against the euro and yen, but was modestly weaker versus sterling. The U.S. dollar ended March at US$1.18 versus the euro, US$1.38 against sterling and at 110.50 yen.

Index Definitions

The **Citigroup Economic Surprise Index** is an objective and quantitative measures of economic news, defined as the weighted historical standard deviations of data surprises (actual releases versus Bloomberg survey median).

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 Canadian market. With 88 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

The **MSCI Emerging Markets Value Index** measures the performance of large- and mid-cap stocks exhibiting overall value style characteristics across 27 emerging-market countries.

The **MSCI Europe ex UK Index** is a free float-adjusted market-capitalization-weighted index designed to measure the performance of large- and mid-capitalization stocks across developed-market countries in Europe, excluding the U.K.

The **MSCI Frontier Emerging Markets (FEM) Index** captures large- and mid-cap representation across 34 frontier and emerging-markets countries. The Index covers about 85% of the free float-adjusted market capitalization in each country.

The **MSCI United Kingdom Index** is a free float-adjusted market-capitalization-weighted index designed to measure the performance of large- and mid-capitalization stocks in the U.K.

The **MSCI USA Index** measures the performance of the large- and mid-cap segments of the U.S. market. The Index covers approximately 85% of the free float-adjusted market capitalization in the U.S.

The **MSCI World ex USA Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity-market performance of developed markets, excluding the U.S.

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.

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