2Q21 | GLOBAL ECONOMY REMAINS FIRMLY IN EXPANSIONARY TERRITORY

INVESTMENT ENVIRONMENT

- A rapid global demand recovery has caused some teething issues in supply chains with greater fluidity expected as the year progresses.

EQUITY MARKETS

- Strong equity returns reflect the broad based demand recovery as mobility restrictions ease.

FIXED INCOME MARKETS

- Central banks recognize strong economic growth and rising inflation and signal action to maintain a healthy trajectory.

INVESTMENT ENVIRONMENT | SHARP DEMAND RECOVERY IS FORCING SUPPLY CHAINS TO PLAY CATCH-UP

The strong growth environment continued in the second quarter with the service economy in particular accelerating as the world advances towards a more fulsome reopening. The regions of greatest strength remain somewhat biased to developed markets at this time owing to more advanced vaccination programs though progress is evident across all regions.

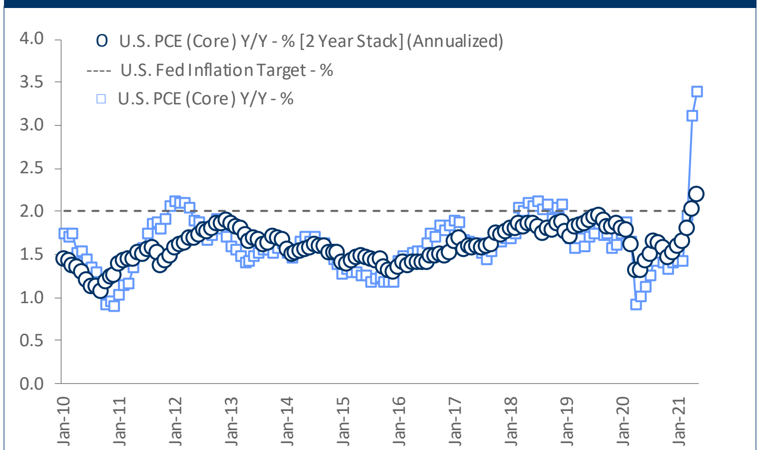
This re-opening of the economy and related sharp demand recovery has caused some stress to global supply chains which has driven inflation expectations higher in recent months. Capacity constraints in the shipping industry are delaying the delivery of goods, semiconductors shortages are slowing down production of automobiles and electronic components, and labour availability is impacting companies' rehiring plans. Importantly, none of these supply bottlenecks appear structural in nature and should moderate as capacity catches up with demand. In the meantime, closely watched inflation indicators have risen above the Fed's target raising some concerns that the economy is running above sustainable levels with the service sector yet to fully take off. **Viewing inflation on a two-year stack basis better accounts for the weak economic environment in 2020 and presents a more manageable picture, especially in the context of the Fed's recent adoption of the flexible average inflation framework (Figure 1).** We also note that Core PCE has rarely breached the 2% average threshold in the past decade which should provide additional leeway for the Fed to allow market factors to normalize.

China has taken direct measures to reign in raw material inflation in support of a stable domestic growth policy. State-owned enterprises have been ordered to control commodity inflation risk and government agencies have signaled an intent to release various base metals from stockpiles directly to manufacturers. China has also been active in slowing down their property market and may be easing off infrastructure spending though this should be offset by improving trends in consumer and corporate spending.

The jobs recovery from pandemic lows has been material though still has some distance to normalize with a few moderating headwinds still in place. Issues such as health concerns, and a lack of childcare options which had prevented a subset of workers regaining employment are rapidly abating. Another interesting dynamic has been enhanced unemployment benefits which in some cases have resulted in recipients receiving greater incomes than when actively working, though many U.S. programs either have or will expire in the near-term. The hospitality industry has been amongst the hardest hit by COVID-19 and is beginning to benefit from the liberalization of mobility restrictions and should contribute to jobless claims further improving towards pre-pandemic levels as the recovery extends (Figure 2). Improved labour availability will be welcomed by businesses eager to capitalize on the strong demand environment.

The global economy remains firmly in expansionary territory and should continue to grow apace even while certain year over year growth indicators may be near to peaking. The COVID-19 Delta variant does merit monitoring, though countries with well progressed vaccination programs are navigating this issue without meaningful disruptions at this time. Laggard regions should make more material contributions to growth as the year advances and current restrictions in place can be lifted.

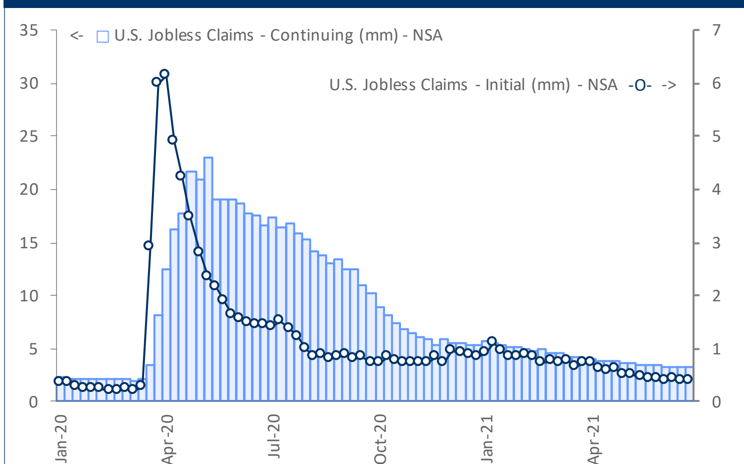
FIGURE 1: INFLATION MORE BENIGN ON A 2 YEAR BASIS



PCE refers to Personal Consumption Expenditures price index

Source: Bloomberg

FIGURE 2: JOBLESS CLAIMS CONTINUE TO NORMALIZE



Source: Bloomberg

EQUITY MARKETS | STRONG PERFORMANCE CONTINUES AS DRIVERS OF RETURNS EVOLVE

Equity Index Returns				
	2Q21 (CAD)	2Q21 (USD)	YTD21(CAD)	YTD21(USD)
Global (Net)	+6.2%	+7.7%	+9.9%	+13.1%
Canadian	+8.6%		+17.3%	
CAD Small Cap	+9.2%		+19.8%	

Equity markets had another strong quarter, although the driver of the returns changed from the recent past. Optimism surrounding a rebound in the economy following the release of positive vaccine trial results last November prompted a rotation into value and cyclical companies at the expense of structural growth stocks. Apart from the energy sector, this rotation reversed course in mid May with structural growers once again coming back into favour as the market began to factor in potentially peaking growth rates and more benign inflation expectations. Part of the impetus for the change in market tone was a more hawkish bias to recent U.S. Fed communications which has led to declines in long-term interest rates from their early March peak.

BIM EQUITY FRAMEWORK

We maintain a constructive view on the durability of economic growth as consumer spending broadens to the service sector of the economy, governments invest more into infrastructure, and corporations reassess their future capital expenditure plans. Input cost inflation and potential complications from COVID variants represent short-term challenges that must be navigated by equity markets which appear to be manageable at this time. We also expect that well run companies exposed to healthy end markets have an opportunity to cement their leadership positions and emerge from this period having taken share from their peers.

GLOBAL MARKETS

Within the portfolio, we continue to focus on companies with unique features at either end of the value / cyclical and structural-growth spectrum, which can benefit from the reopening of the global economy along with an ability to gain market share. Furthermore, industries that are in the in early stages of recovery offer potentially greater return opportunities.

The travel industry has been one of the most negatively impacted industries from the pandemic (Figure 3). Pent-up demand combined with high savings rates bode well for a strong consumer-led recovery here. Due to fewer restrictions than international travel, domestic travel has seen the quickest rebound, which benefits companies like Advance Auto Parts in the shorter term due to growth in vehicle miles driven. An additional opportunity for the stock is management's internal initiatives in place to drive profit margins significantly higher over the longer term.

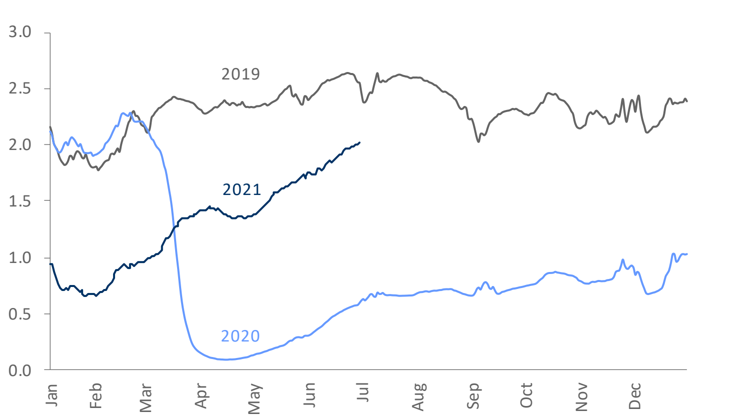
Although international travel has witnessed some improvement this year, it remains significantly lower than pre-pandemic levels. As vaccination rates continue to improve, restrictions on international travel should ease, which ignites the recovery here as well. Our holding in MasterCard is expected to benefit from a rebound in cross boarder travel spending, and also remains well positioned as a structural grower within the digital payments industry.

CANADIAN ALL-CAP MARKET

Canadian businesses have been eagerly awaiting the relaxation of lockdown measures which have been much more stringent than those in place in the U.S. with Ontario being one of the most affected regions (Figure 4). While the Canadian Emergency Wage Subsidy (CEWS) has provided some flexibility to many companies, all will be eager to service a normalized environment as restrictions continue to be lifted. Some of the most impacted industries may see elevated demand levels as consumers seek to make up for lost experiences since the onset of the pandemic. Full-service dining would be one of the first to come to mind, though the breadth of sectors that should benefit from increased mobility is expansive. While not a pure play on this theme, Premium Brands does have a material food service business that should rebound nicely with continued re-opening progress.

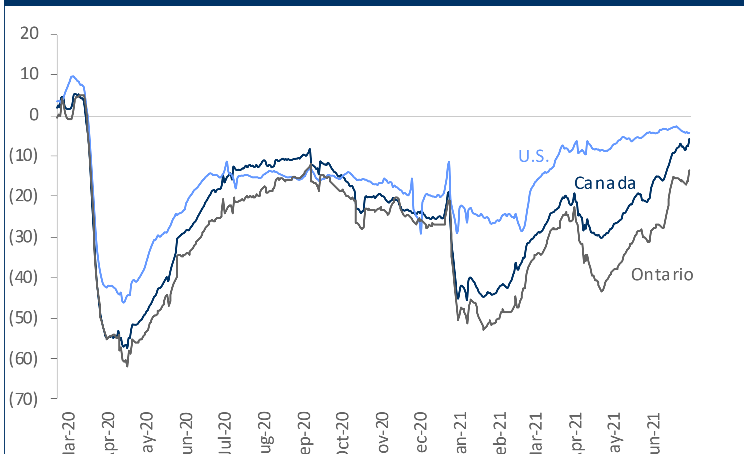
Last quarter we commented on a very active mergers and acquisitions slate, and while the pace of announcements has since slowed, it was notable that competing bids emerged for two of the larger potential transactions. CN Rail came in over the top of CP Rail's offer for Kansas City Southern and is currently awaiting regulatory approval, and Pembina Pipeline countered Brookfield's proposal for Inter Pipeline and has secured the support of the board. While it is not unusual for potentially interested parties to perform some number crunching once a company has been put into play, we believe that the formal offers which have emerged are indicative of a high level of corporate confidence that the current economic recovery remains in its infancy.

FIGURE 3: U.S. AIR PASSENGER VOLUMES IMPROVING



U.S. TSA Checkpoint Travel Numbers (7 Day Moving Average) - MM
Source: Transport Security Administration (U.S.)

FIGURE 4: MOBILITY IN CANADA QUICKLY CATCHING UP



Source: Google | 7 Day Moving Average % Change Vs. Baseline (Retail & Recreation)

CANADIAN SMALL-CAP MARKET

Small cap equities continued their leadership during the second quarter slightly edging the large-cap composite and extending the streak to five quarters of outperformance. As we highlighted to small cap clients last year: (1) the best future investment returns materialize after large drawdowns; and (2) though small-cap stocks often lag in the sell-off, they rebound stronger in the recovery as risk appetite improves. This is what has played out and in the current period risk assets continued to perform well in conjunction with strong economic growth and increasing demand expectations.

Energy has been the top performing sector year-to-date across Canadian indices with small-cap producers outpacing their large-cap peers. We remain true to our philosophy of targeting quality companies that are well placed to capitalize on improving demand and the industry's greater focus on full cycle returns while being mindful of longer-term structural headwinds. Recently added ARC Resources is benefitting from this commodity environment, while Enerflex is a derivative play that will benefit from both improved E&P spending and energy transition to cleaner fuels.

We remain in the camp that we are in a healthy environment for small-caps and though pockets of the market look more fully valued, businesses that can demonstrate strong cash flow growth and exceed expectations should perform quite well.

BIM EQUITY THESIS SPOTLIGHT

Savaria is a leading Canadian based manufacturer of accessibility (elevator and stair lifts), patient-handling (patient lifts), and adapted vehicle products. Positive secular industry trends include an aging population with a potentially increasing desire to age at home and a continued drive for safe patient-handling in healthcare facilities.

Dealers appreciate Savaria's breadth of product that facilitates a single point of contact for a meaningful portion of their sales, and the company further differentiates itself by leveraging a low-cost global manufacturing footprint and certain innovative offerings such as the *Vuelift* elevator. Mergers and acquisitions have been a source of value creation over time, and the recent purchase of Handicare appears to build upon existing competitive advantages and provides a more compelling stair lift line-up.

Limited access to facilities created some headwinds through 2020 that should reverse as re-opening efforts progress. Looking forward, the company remains optimistic on the prospects for its end markets with a goal to reach $1 billion in sales exiting 2025 which equates to a high single digit organic growth rate.

Input cost inflation has been of some concern though is an industry wide phenomenon, and the company has been successful in adjusting prices and has further mitigated any impacts by drawing down upon existing inventory where necessary.

FIXED INCOME MARKETS | U.S. FED PIVOT LEADS TO LOWER INTEREST RATES

Fixed Income Index Returns	2Q21	YTD21
Canadian	+1.7%	-3.5%

A decline in interest rates (Figure 5) led by the long end combined with tightening credit spreads resulted in solid returns for fixed income portfolios in the second quarter. Thus far in 2021, interest rates peaked in mid-March and have proceeded to trickle lower ever since.

During the U.S. Federal Reserve's (Fed) June meeting the committee acknowledged that U.S. economic growth and inflation had come in above expectations. Updated commentary and forecasts have moved the central bank off the sideline and has brought the potential timeline for reducing quantitative easing (QE) and eventually raising interest rates into greater focus.

Longer term interest rates had in part been rising on concerns of a potential Fed policy mistake of failing to recognize rapidly rising inflation. These worries were assuaged by the Fed's change in policy stance with the effects also flowing into the long end of the Canadian market.

The updated Fed policy stance is now more in line with the Bank of Canada (BoC) which has long since forecasted strong U.S. economic growth and the associated spillover benefits that would flow north of the border.

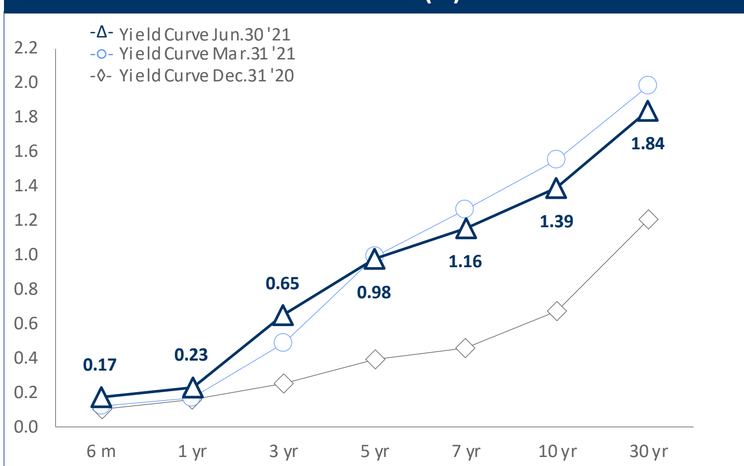
The BoC has already begun the process of reducing its QE program and is expected to trim it once again in the third quarter. The Canadian economy is just at the start of its reopening boom and future expectations of strong growth and rising inflation are most likely to be reflected in 5-year and shorter interest rates as the market begins to price in hikes from the central bank starting in late 2022 to early 2023.

BIM FIXED INCOME FRAMEWORK

Long term bonds outperformed during the quarter as the corresponding interest rate declined. Long term provincial bonds did particularly well with their credit spreads tightening and adding to returns.

Portfolio duration remains well below the benchmark as we continue to expect interest rates to rise. During the quarter we added corporate credit exposure as companies will do well during this period of strong economic growth and those bonds will contribute more interest income.

FIGURE 5: CANADIAN YIELD CURVE (%)



Source: Bloomberg

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