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A simple conversation today can help you reach your goals tomorrow.

Here's to making the most of your summer

We hope you're enjoying all that summer offers with your family and friends – whether it's a picnic, camping, a concert, vacation or staycation – the main thing is to make the most of this outdoor season.

Our summer edition of Advice Matters features articles that will help you understand and manage through today's realities.

You'll read about:

- **Budgeting:** read about five common budgeting mistakes and how to avoid them. You'll also learn about the 50/30/20 rule of thumb, a very useful approach to keep your spending on track.
- **Inflation:** what it is, how it happens and why it happens.
- **Investing:** if you're starting on the path to investing, we've outlined five questions to ask yourself to help you choose an investment strategy that works best for you.
- **Portfolio Managers (PMs):** learn about some of the key duties performed by Portfolio Managers and we'll introduce you to two Scotiabank PMs, who'll talk about their unique career journey.

If you have any questions about the information provided, feel free to reach out to your Scotiabank advisor or your branch. Our advisors are ready to answer your questions and to help keep you focused on achieving your financial goals.

For additional tips, tools and timely financial information, you can also visit the ScotiaAdvice+ Centre. We're constantly adding new content, so make sure you check back frequently.

Happy summer to you and your loved ones!

In this issue you'll find:

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Common budgeting mistakes and how to avoid them

Many people believe that the word "budgeting" means denying yourself of the things you want. In reality, establishing a budget is an important first step to gaining control over your finances, so that you can achieve your financial goals and the lifestyle you want.

Having a good understanding of your income and expenses is critical in building a solid budget and will help you to better prepare for any unexpected financial challenges you may encounter.

Whether you've tried a budget in the past or are establishing one for the first time, it may take a few attempts to create one that works for you.

Let's take a look at five very common budgeting pitfalls and steps you can take to help build a budget that works for you.

FIVE KEY BUDGETING MISTAKES

1. Not finding the easiest way for you to track your budget

It's important to understand that it may take a few months of fine-tuning, and trial and error, to find a budgeting method that's right for you.

Your budget can be as basic or detailed as you like. You may want to try a few different budgeting methods to find the one that's right for you – whether it's a spreadsheet, paper list or an app. Whichever tool you choose to use, make sure it works for you. Some people find the automation of a budgeting app helps to keep them motivated to stick to their budget. Others may prefer a simple notebook with a pen at hand to make quick updates or notes. Not all budget methods work for everyone, so choose one that's easy and convenient for you, and you'll be more likely to stick with it.

TIP

Check out the recently introduced **Scotia Smart Money** by Advice+, which you can find in the Advice+ tab of the latest version of the Scotia app.

It gives you access to a variety of money management tools all in one place, such as a budget feature that tracks your spending and tells you how you're doing on a monthly basis against the budget targets you've set up.

To learn more, read on or visit **scotiabank.com/scotiasmartmoney**

2. Assuming your budget will be the same every month

Failing to account for changes in spending during certain months can really throw off your budget. For example, your energy costs during warmer or colder months will vary if you're not on an equal billing plan (spreading the cost of your annual electricity bill over 12 equal monthly payments).

While it's usually easy to keep track of your monthly rent and utilities, don't forget all those less frequent costs, such as insurance payments, quarterly property tax, tuition fees, and gift giving for holidays or birthdays. Make sure you plan for each month separately, and incorporate both regular and less frequent, or irregular, expenses.

Scotia Smart Money makes this easy: you'll be able to set up a budget that is based on your spending over the last six months. You can lean on this or create your own, and you can update your budget at any point to align with your spending and savings goals.

3. Not revisiting your budget

Did you get a raise? Did you spend money on an unexpected gift? While having a budget is a great start, it's important to remember that your budget should be continually reviewed and updated to reflect changes in your life that may affect your income and/or expenses. When your budget isn't updated to reflect changes, it will become ineffective, and you may be tempted to abandon budgeting altogether.

Even if there are no significant changes in your income or expenses, it's a good idea to set aside time to review and revise your budget, whether that's monthly, bi-monthly, semi-annually or annually – choose a frequency that works for you.

Based on your income stream, you might need to review your budget every pay period. For couples, consider doing this together and use this as a chance to see if you're both on track and on the same page financially – providing each other with encouragement and tips.

Some questions to ask yourself when reviewing your budget:

- Are all my regular and less frequent payments accounted for? See #2 "Assuming your budget will be the same every month" for examples.
- Have I considered any additional income coming in, for example, a tax refund, bonus?
- Is my debt repayment on track – can it be accelerated?
- Am I reviewing my bank or credit card statements each month for unauthorized charges or savings opportunities (for example, cancelling unneeded subscriptions, memberships or product warranties)?
- Am I setting aside enough to meet my savings goals?
- Am I overspending on something that I don't need or want? Where can the money be best diverted – paying down debt or saving?

4. Not setting aside money for unexpected expenses

Unplanned expenses, such as car and home repairs, always seem to happen at the worst possible time. Keeping this in mind, it makes sense to regularly set aside money in an emergency fund as part of your budget.

Having access to a ready reserve of cash if an unexpected expense happens will prevent you from having to take on additional debt, and potentially disrupting, or even bringing an end to your budget. Many experts suggest that having an emergency fund to cover at least three to six months of total living expenses can help us get through difficult times, if they arise.

Pre-Authorized Contributions (PACs) are a convenient and flexible way to schedule automatic deposits to your emergency fund. You choose the amount you want to contribute and how often – for example, weekly, biweekly or monthly. Contribute whatever you can to your fund – even starting with $25 a month and then increasing the amount when you can. To see how quickly your savings can grow, visit **scotiabank.com/PAC** and try out our interactive PAC video.

TIP

Stay on top of your account activity with InfoAlerts

Wondering when your next statement is coming? Looking for an easier way to stay on top of your transactions?

With Scotia InfoAlerts, you'll instantly get an app notification, email (or both) when important activity happens on your account. You can set up InfoAlerts on any of your bank accounts, credit cards, lines of credit or business accounts.

Visit **scotiabank.com/infoalerts** for more information and to learn how to set up InfoAlerts for online banking on the mobile app.

DID YOU KNOW?

50% of Canadians cannot manage a surprise expense of over $1,000[1]

[1] Source: Angus Reid, Cost of Living & Inflation, Feb 11-13, 2022.

5. Forgetting to set aside money for enjoyment/things you want to do

A budget should help you control spending, so you have money left over for the things that make you happy – whether that's a vacation, new clothes, or going to concerts or restaurants. If you make your budget too rigid and don't set aside money for the things you enjoy, chances are your budget won't last very long.

To make budgeting a little more fun and keep you motivated to continue, treat yourself to a reward if you stick to your budget for a certain amount of time – for example, the end of every month.

Introducing Scotia Smart Money by Advice+: A tool to help you build and manage your budget effectively

Do you know how much you spend on takeout every month, sometimes overlook paying a bill, or could you just use a little more help managing your finances?

Scotia Smart Money by Advice+* is a new set of money management features that you can find in the Advice+ tab of the latest version of the Scotia mobile app. View your cashflow, track your spending, create a budget, and get the insights you need to maximize the way you manage your money.

To learn more, visit **scotiabank.com/scotiasmartmoney.**

*Certain eligibility requirements apply.

If you approach budgeting as a way to achieve financial well-being, the process will become more appealing. Remember that finding a method that works for you and building momentum may take some time. However, the reward of creating and maintaining your budget will be the ability to live the way you want.

50/30/20 Rule of thumb for budgeting

The 50/30/20 rule[2] was designed as a rough rule of thumb to allocate a budget according to three categories: **needs, wants** and **financial goals**.

Like any rule of thumb, it's a good idea to take the 50/30/20 rule of thumb with a grain of salt.

The 50/30/20 budgeting rule

50%

Needs
- Groceries
- Housing (mortgage, rent)
- Utilities
- Etc.

30%

Wants
- Shopping
- Dining out
- Hobbies

20%

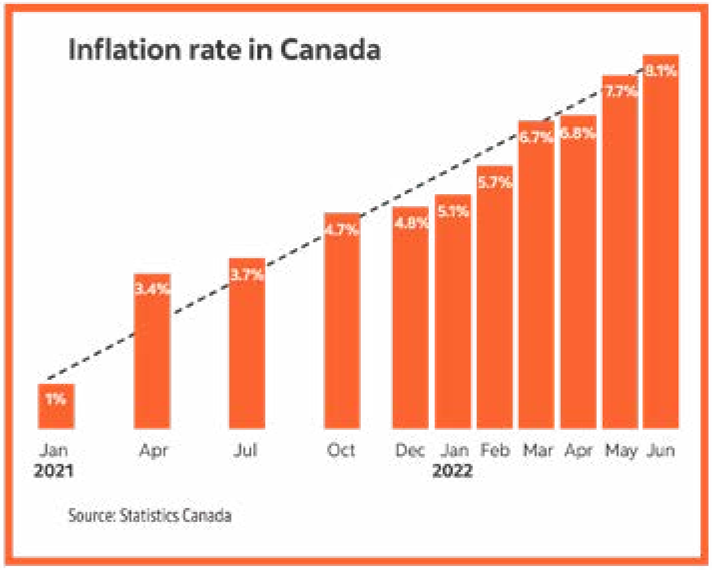
Savings
- Debt repayment

[2] Source: Elizabeth Warren and Amelia Warren Tyagi. "All Your Worth: The Ultimate Lifetime Money Plan." Free Press, 2006 (https://www.thebalance.com/the-50-30-20-rule-of-thumb-453922).

Understanding inflation and its impact on your money

The continuing rise of prices has impacted many Canadian households. In the following article, we'll provide some basic information to help you understand what inflation is, how it happens and why it happens.

After climbing steadily through 2021, inflation has continued to climb in 2022, reaching 8.1% in June, the highest level Canada has seen in 31 years. Historically, the Bank of Canada (BoC) has tried to keep target inflation at 2% a year.



What is inflation?

Inflation represents the rate at which the cost of goods and services increases over a period of time.

Essentially, the percentage change in the price of the goods and services is used as an estimate of the amount of inflation in the economy overall.

How is inflation measured?

The Consumer Price Index (CPI) is one of the most widely used economic indicators in Canada. The CPI compares, over time, the cost of a fixed basket of goods and services purchased by consumers – such as food, housing and clothing.

Today's costs versus yesterday

Bread white bread 675 grams		Milk 1 litre		Eggs 1 dozen		Butter 454 grams		Gas Regular, unleaded gasoline at self-service stations, per litre	
2017	2022	2017	2022	2017	2022	2017	2022	2017	2022
$2.75	$3.37	$2.33	$2.78	$3.09	$4.04	$4.20	$5.25	$1.11	$1.95

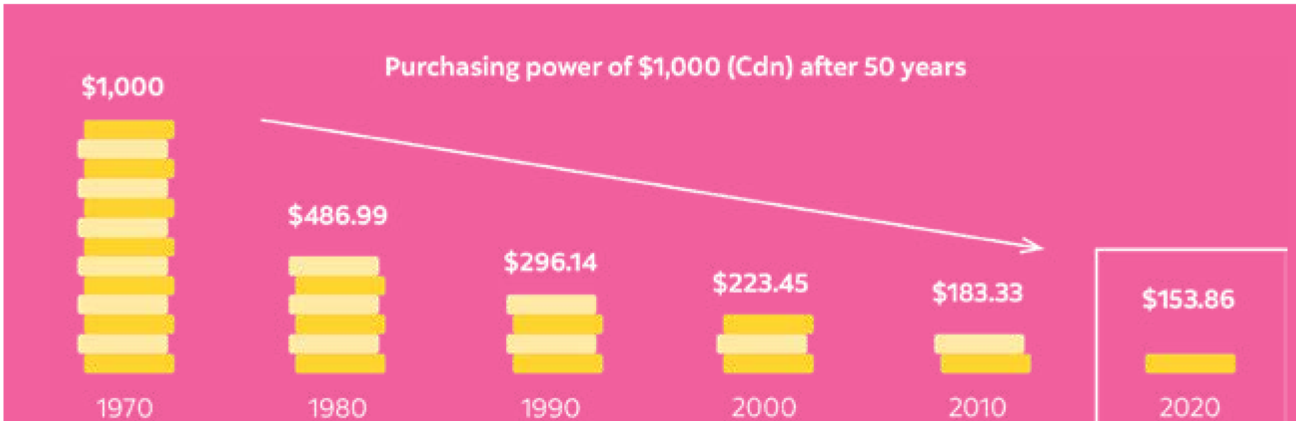
Source: Statistics Canada, Table 18-10-0245-01, Monthly average retail prices for selected products, April 2022.

Statistics Canada, Table 18-10-0001-01, Monthly average price for gasoline and fuel oil, May 2022.

What is the most common effect of inflation?

As inflation increases, there is a decrease in the purchasing power of money – in other words, as prices increase, your money buys less.

See the simple illustration below, which shows the diminished purchasing power of $1,000 after 50 years – from 1970 to 2020.



Source: Statistics Canada, Core Canadian CPI from December 31, 1970, to November 30, 2020.

What is the long-term effect of inflation?

Over the long run, Canadians who earn less than the rate of inflation on their savings or investments will have reduced purchasing power when they begin spending their money. For retirees, this is especially difficult as their retirement savings will need to stretch further to pay for higher priced goods and services.

What causes inflation?

There are various factors that can cause prices to increase, but typically inflation results from:

1. A surge in demand for products or services exceeding the available supply.
2. A rise in production costs that producers pass on to consumers.
3. Fiscal and monetary policy by government (for example, low interest rates, cutting business taxes, increased spending on infrastructure projects).

How is inflation controlled?

The Bank of Canada (BoC) actively increases and decreases interest rates to control inflation. **Historically, the BoC has tried to keep target inflation at 2% a year**. According to the Bank of Canada, "We (BoC) target inflation because a low, stable and predictable rate of inflation is good for the economy. When people and businesses feel confident that they know what the rate of inflation will be, they can make long-range financial plans. That leads to an economy that functions better. Average economic growth is stronger, and employment is higher."

Higher interest rates

When interest rates are higher, they encourage people to save as they can earn a higher rate of return on their money. As a result, less borrowing and spending tends to occur. When this happens, companies may increase their prices at a slower pace or even lower prices to get people to spend again as demand is low. This reduces inflation since the prices of goods aren't rising as quickly as they would otherwise.

Lower interest rates

Lower interest rates work in the opposite way. Not only does it cost less to borrow money when interest rates are low, but you also earn less from keeping your money in savings, which means you may end up spending more money. This increase in consumer spending could cause prices to rise as consumers are willing to pay more.

Ways Canadians are looking to stretch their dollars

The majority of Canadians are feeling the impact of inflation on their everyday household purchases such as groceries, gas and other household items.

Let's take a look at what Canadians are doing, or planning to do, as a result of rising inflation:

Action	% already doing	% plan to do
Reduce food waste	66%	20%
Buy less expensive items at grocery store	61%	21%
Spend less on household items	48%	28%
Eat at restaurants/order takeout less often	52%	23%
Spend less on entertainment	50%	21%
Reduce vehicle usage	49%	21%
Plan for less expensive vacations	32%	27%
Buy an electric vehicle	8%	23%

Source: Leger, North American Tracker, March 2022.

Coping with inflation and staying on track financially

During times like these it's important to have access to sound financial advice. Your Scotiabank advisor can recommend personalized strategies to help minimize the effects of rising inflation on different areas of your household's finances (such as budgeting, restructuring debt, and long-term retirement planning and investing).

Occasional flare-ups, like those witnessed more recently, are a reminder of the importance of having an actionable financial plan and an investment strategy that can help you maintain your purchasing power. Scotiabank offers a wide range of portfolio solutions that are built to navigate a variety of market conditions, including periods of rising inflation, and align with your risk tolerance and long-term return expectations.

Reach out to a Scotiabank advisor or visit **scotiabank.com/book** to schedule an appointment.

Visit the ScotiaAdvice+ Centre at **scotiabank.com/adviceplus**, where you'll find timely financial information, advice, tips and tools to help you become better off today and tomorrow.

"Shrinkflation" – what is it and how is it affecting you?

To deal with the impact of rising inflation, companies may reduce the amount of product in each package while charging the same prices in what's known as shrinkflation. In other words, you're paying the same price for less product. Experts suggest consumers can avoid shrinkflation by paying attention to the price per unit rather than the total price.

Source: CBC News, "Shrinkflation is happening on grocery store shelves. What it is, and how to avoid", https://www.cbc.ca/news/business/shrinkflation-smaller-package-sizes-1.6461139

Five questions to ask before you invest

The world of investing can be both exciting and rewarding, so long as you have a good idea of what you would like to achieve.

Here are five questions to ask yourself as you start on the path to investing.

1. What do I want to achieve with my money?

Before creating your investment portfolio, decide on your savings goals. Of course, you want your money to grow. But your choice of investments should depend on what the money is intended for (your goal) and how much time you have to achieve the goal (your time horizon).

If you have a short-term goal (usually less than three years), for items such as saving for an emergency fund, vacation or car, you may want to consider savings accounts or short-term guaranteed investment certificates (GICs). The money will be there when you need it because it can be quickly converted to cash, and the principal amount (money you've deposited) is protected. For longer-term goals, such as saving for your children's education or retirement, you could consider a Registered Education Savings Plan (RESP), long-term GIC or long-term mutual fund.

2. How comfortable am I with the idea of a drop in my portfolio balance?

Your risk tolerance, or risk appetite, is the amount of risk you're willing to accept when investing and your financial ability to handle loss. Having a clear understanding of your risk tolerance will help you determine which investments are appropriate and which to avoid.

Many investments that offer the potential for a higher rate of return also involve a higher level of risk. More risk may be acceptable if you have a longer time horizon, which will allow for more time to recover from market downturns.

Your Scotiabank advisor can help assess your risk tolerance and build an investment portfolio tailored to address your unique needs and comfort level.

3. What is the right mix of investments for my portfolio?

To reduce risk, it's important to diversify your investments across a range of asset classes (for example, stocks, bonds or cash), as well as across industry sectors (such as technology, health care, consumer goods or energy, just to name a few) and geographies. While a well-diversified portfolio won't eliminate fluctuations in your balances, it can reduce some of the inevitable market downturns and help you stay invested and on track to reaching your goals.

With an abundance of investment options to choose from, choosing the right mix of investments can be a challenge. An all-in-one mutual fund portfolio is a convenient solution that can remove the guesswork of building and maintaining a well-diversified portfolio.

Visit **scotiafunds.com** to learn about **Scotia Portfolio Solutions**. Each portfolio solution offers a diversified mix of mutual funds that is carefully selected, thoughtfully combined and continuously managed by experienced multi-asset management investment professionals.

4. How will I monitor and rebalance my portfolio?

Once you've determined your portfolio's asset allocation, you'll want to rebalance your portfolio periodically to maintain its proper mix over time. Strong (or weak) performance in one asset class could cause your asset mix to drift from its original weightings and expose you to unintended risks. Regular rebalancing helps keeps your portfolio aligned with both your investment objectives and your risk tolerance.

If you're using one of **Scotia Portfolio Solutions**, your funds are automatically rebalanced to maintain the optimal asset mix.

Asset allocation is an investment strategy that divides your investments among different asset classes to better manage investment risk.

5. How will I react to market fluctuations?

Markets inevitably experience periods of growth and periods of decline. When this happens, you may be tempted to jump in or out of the market to avoid losses. Don't let emotions drive your investment decisions.

Having a financial plan in place will help you stay the course, knowing that your goals won't be derailed by a market downturn. A well-designed financial plan can help prepare you for the unexpected and focus on the long term, which allows you to see beyond the ups and downs of market volatility.

Still have questions about investing? Your **Scotiabank advisor** can help you choose an investment strategy that considers your goals, time horizon and risk tolerance.

Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments, including ETFs. Please read the prospectus before investing. Mutual funds and ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

What does a Portfolio Manager do?

Your Scotiabank advisor is your primary contact when it comes to building a financial plan to meet your goals – whether that's retirement, a new home or funding your child's education. **But do you know who's responsible for guiding the funds that you and your advisor select for your financial plan?**

Portfolio managers perform a range of vital functions behind the scenes, overseeing the daily management of mutual funds, while continually surveying markets and researching companies in order to find the most suitable investments available.

When most people think of a portfolio manager, they often envision a "stock-picker," someone in charge of buying and selling securities. However, a portfolio manager's duties go beyond security selection and vary depending on the size and scope of the funds they manage.

While different portfolio managers often perform different tasks, the primary driver of decision-making for Scotiabank portfolio managers is a commitment to delivering positive outcomes for our clients.

Let's take a deeper dive in order to understand some of the key roles performed by portfolio managers, or PMs, for short.

PORTFOLIO MANAGER DUTIES: AN OVERVIEW

Research

While perhaps not the most glamourous aspect of being a PM, the reality is that most portfolio managers spend a tremendous amount of time researching companies and the current market environment to gain a fuller understanding of a company's true value. In addition to scouring financial reports and balance sheets, PMs must also be aware of a wide range of non-financial matters – from how the leadership runs the organization and labour issues to environmental concerns or even a potentially damaging post on social media.

Meeting stated investment objectives

As the primary caretaker of the fund's assets, portfolio managers must have an in-depth understanding of the fund's specific investment criteria – from appropriate investments and acceptable risk to return objectives and much more.

Determining the proper mix of assets

(Strategic asset allocation)

Stated simply, strategic asset allocation is the process of dividing a fund's investments among different asset categories – such as stocks, bonds and cash – in order to better manage risk. During times of market uncertainty, a portfolio manager might reduce a fund's holdings in certain asset classes that may face imminent challenges, such as rising interest rates.

Rebalancing

Once a fund's asset allocation is set, it requires ongoing maintenance to ensure the target allocation remains in place. This process, known as rebalancing, involves the portfolio manager periodically adjusting a fund's asset mix in order to bring it back in line with the fund's investment target allocation or guidelines.

Constantly managing and minimizing risk

While asset allocation and rebalancing are integral parts of risk management, they don't represent all of the risk factors to consider. It's important to stress that portfolio managers are constantly assessing a broad range of risks – including market risk, currency risk, individual securities risk and more. Portfolio managers use a wide range of sophisticated analytical tools and software to better understand a fund's overall risk and often perform "stress tests" to ensure that risk remains at an acceptable level.

Public relations

As the public face of an investment fund, portfolio managers are often responsible for a wide variety of communications duties, including periodic calls with advisors and/or investors, fund presentations to prospective investors (both large and small), and talking to financial analysts and the media about the fund and the ongoing market environment.

A word about investment style

Active versus Passive

Many traditional mutual funds are actively managed, meaning seasoned portfolio managers are at the helm, managing the fund's investments. Their investment knowledge and experience can be an invaluable resource, especially for many investors who simply don't have the time or investment expertise to research, trade and review individual securities on their own.

While mutual funds are generally associated with active management, there are also passively managed mutual funds, known as index funds. **Passively managed mutual funds are designed to closely track the performance of a recognized equity or bond index, such as the S&P/TSX Composite Index for Canadian equities or the FTSE Canada Universe Bond Index for Canadian bonds.** Unlike actively managed mutual funds, there is no active security selection and the risk and return profile of the funds is specific to that of the index it tracks.

One of the key differences between active and passive management is investment flexibility. Actively managed mutual funds have a portfolio manager who can adjust holdings to respond to market conditions. By contrast, passively managed funds have little to no flexibility to adjust their fund's holdings to reduce risk or increase return potential, when compared with the respective benchmark.

While most clients never actually meet the investment professionals behind the funds they're invested in, Scotiabank advisors meet regularly with them to get their insights on markets and the funds they manage. Having this in-depth understanding is essential for advisors so that they can provide the best possible financial advice to you.

To learn more about the various investment options available through Scotiabank, visit **scotiafunds.com** or talk to a Scotiabank advisor today.

Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments, including ETFs. Please read the prospectus before investing. Mutual funds and ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

GETTING TO KNOW TWO OF YOUR SCOTIABANK PORTFOLIO MANAGERS

Craig Maddock
Vice President and
Senior Portfolio Manager
Head of Multi-Asset Management
1832 Asset Management L.P.

Yuko Girard
Portfolio Manager
Multi-Asset Management
1832 Asset Management L.P.

Why did you want to become a Portfolio Manager?

As a kid, I wanted to become a stockbroker. I thought that would be really cool. My plan was to work at a bank. I thought that if I became a bank manager, then when I became a stockbroker, people would trust me.

Growing up, I liked the idea of looking at companies and investing. I can remember as a kid, instead of wanting toys, I wanted stock in Irwin Toys. I thought it would be a great time to buy Irwin stock just before Christmas because their sales are highest at that time of year. I never actually became a stockbroker, but I did get into the world of banking, which ultimately led me into investing as a bank advisor. That experience was my springboard to becoming an actual portfolio manager at MD Financial, where I started to manage assets on behalf of MD's physician clients.

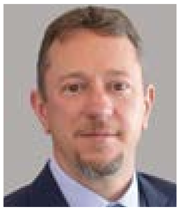
When I eventually had the opportunity to become a PM, I was excited to try and solve this constantly-evolving puzzle using math and complex problem-solving, as well as thinking about how the future might play out. I really enjoy the whole concept of investing, how companies work, and what makes them great investments.

Enjoying what you do is critical to making you a better portfolio manager. I'd have to say that for me, being a PM is exciting every day.

I grew up in Japan, where the Portfolio Manager role is not a well-known profession. In Japan, finance and business aren't really studied at universities, so, I didn't know about the profession until I started to do international projects during my studies. That's when I really got interested in finance and decided to come to Canada to do my MBA (Masters of Business Administration degree) in finance.

After graduating, I started in corporate banking, doing loan analysis for lenders. It was interesting, but I eventually became more interested in investments, where the potential upside is unlimited. I then went on to get my CFA (Chartered Financial Analyst) designation and moved onto a variety of investment positions where I've learned how to manage different aspects of a portfolio. I started at Scotiabank in 2008, so it's been almost 15 years now.

Being a PM is something I'm very passionate about because the learning never ends. Markets are always changing, and we have to keep adjusting to that and understanding the impact on our clients' investments. Each and every day is different. I really like that.



Craig Maddock
Vice President and
Senior Portfolio Manager
Head of Multi-Asset Management
1832 Asset Management L.P.

Yuko Girard
Portfolio Manager
Multi-Asset Management
1832 Asset Management L.P.

What's the most important lesson you've learned as a Portfolio Manager?

One of the most important lessons is that everything is constantly changing. There isn't just one style or one investment strategy that's always going to work. There are some patterns that will repeat themselves and there are some principles you can apply, but you need to consider each situation uniquely.

And because so many things are evolving, teamwork is critical. I surround myself with smart people who want to work well together to help our clients achieve their investment goals. With so much information to research and assess, I don't have all the answers. I have a piece of the puzzle and the portfolio managers I work with also have a piece of the puzzle, so when we put all our pieces together, we have enough of the picture to make informed decisions for our clients.

When it comes to investing, you really have to be very clear about your objective. What are we trying to achieve? What's the desired outcome? Next, is a matter of understanding the amount of risk you're willing to take. Once that's determined, it's a matter of how we get there.

Good portfolio management is all about being consistent and charting a a smooth path toward that objective. For the path to be smooth, you have to be diversified and have a clear understanding of how different elements of the portfolio interact with one another. Essentially, you want all the elements to work in combination to achieve something better than the individual elements alone.

As portfolio managers, we always want to ensure that we're rewarded for the risk we're taking. To use a baseball analogy, we're not looking to hit home runs, we're content to string together base hits that consistently help us achieve our clients' investment objectives.

Market insights

MARKET RECAP

(March 1 to June 30)

Inflation remains elevated

Inflation continued to climb in the second quarter, with the U.S. Consumer Price Index (CPI) up 8.3% in April, 8.6% in May, and 9.1% in June, on a year-over-year basis. In Canada, CPI grew by 6.8% in April, 7.7% in May and is expected to reach 8.3% in June. Energy and food continue to be key drivers of higher prices. The war in Ukraine continues to drive prices higher by impacting the global supply of energy, commodities and food. Inflation hurts the economy by increasing costs for businesses and consumers, pressuring profit margins for companies and reducing the amount of discretionary spending by consumers. In addition, the current inflation rates in Canada and the United States suggest interest rates will need to move higher.

Central banks are hiking interest rates aggressively

The Bank of Canada raised its benchmark interest rate by 50 basis points in April, and another 50 basis points in June. The U.S. Federal Reserve raised rates by 50 basis points in May, and 75 basis points in June, the largest U.S. rate hike since 1994. Other rate hikes occurred in England, Australia, South Korea, New Zealand and Singapore, while European Central Bank officials suggested they would raise rates in the third quarter. Major central banks are demonstrating commitment to bringing inflation back down to more manageable levels, and more rate hikes are expected in the near term.

Cooler economic growth now expected

The Organization for Economic Cooperation and Development (OECD) updated its economic growth expectations during the second quarter. The 2022 global growth expectations were revised downwards, from 4.5% to 3% across its 38 member countries. The OECD emphasized that supply limitations are expected to drive inflation higher in Europe and demand excesses could push prices higher in the United States. Central banks will likely continue to raise interest rates in response, which should act to cool the economy.

MARKET PERFORMANCE

Year-to-date Total Returns in Canadian (CAD) currency as at June 30, 2022	Q2 Total Returns in Canadian (CAD) currency as at June 30, 2022
-12.2% FTSE Canada Universe Bond Index	**-5.7%** FTSE Canada Universe Bond Index
-9.9% S&P/TSX Composite Index	**-13.2%** S&P/TSX Composite Index
-18.3% S&P 500 Index	**-13.4%** S&P 500 Index
-18.6% MSCI World Index	**-13.3%** MSCI World Index
-15.7% MSCI Emerging Markets Index	**-8.4%** MSCI Emerging Markets Index

Source: Morningstar

Scotiabank®