

Financial and Economic Notes

January 2020 vol. 170

Equity Markets

This was a strong year for Canadian equities with every quarter delivering positive returns. The final quarter of the year was no exception with a 3.2% return, bringing the annual return of the S&P/TSX Composite to 22.9%. This was the best calendar year since 2009. The asset class benefited from a generally constructive macro environment for equities but also from improving energy prices. Breadth was strong with seven of eleven sectors posting gains during the quarter. Technology (+11%) led the way but was closely followed by Materials (+8%), Energy (+7%) and Industrials (+5%). Health Care (-6%) and Consumer Staples (-4%) were the weakest sectors. For the year, sector breadth was exceptionally strong with only one sector in negative territory (Health Care, -11%).

In the US, this year highlighted the importance of having a long-term view on equities. The sluggish performance in the last quarter of 2018 was followed by a very strong 2019. US equities rebounded nicely finishing up 31.5% in USD and Q4 was no exception with the index up 9.1%, which translated into a 6.8% return in CAD due to the strengthening loonie. Investor confidence increased after the US and China agreed on a “Phase 1” trade deal, putting a pause on President Trump’s proposed tariff hikes. As the market gained more confidence in global growth re-accelerating in 2020, we saw a clear rotation into more cyclical stocks.

International equities also performed well in 2019, finishing more than 15% in Canadian dollars. The final quarter of the year was strong with a 5.9% return. Aside from positive trade developments, equities benefited from Boris Johnson’s victory, winning a majority government in the UK.

Highlights

This last year has been rewarding to equity investors. Fear around weakening global growth and continued global trade tension had investors on their toes to start the year but this abated quickly.

Fixed Income Markets

The last quarter of 2019 closed the year with bonds markets on a relatively bearish note as yields rose to their highest levels in over six months. The outlook for the economy was supported by the reduction in the potential impact from several event risks that dominated headlines throughout 2019. Most notably, there was an agreement in principal to the “Phase 1” US-China trade deal and further clarity on a UK Brexit. While details for the “Phase 1” US-China trade deal have not been finalized (expected in Q1 2020), the agreement in principal by both parties represents an important reversal to the mounting risks of a trade war, which was a theme that dominated headlines and economic outlook throughout 2019. In addition, a global move toward additional monetary policy accommodation and added support from fiscal policy measures to spur growth and meet inflation targets has been increasingly accepted by central bankers.

During the quarter, Canadian inflation remained near target at 2.2% year over year while housing remained strong with good gains in key markets. Unemployment weakened slightly to 5.6% in December while GDP growth in Canada, reported in October, slowed more than expected to 1.2% year over year and was negative for the month at -0.1% month over month. Overall, GDP growth in Canada is expected to weaken to 1.6% for 2019 and then grow to 1.8% in 2020 while growth in the US is expected to come in at 2.3% in 2019 and weaken to 1.8% in 2020. Labour markets in the US remain tight with unemployment approaching a fifty-year low of 3.5%, which should help support consumer confidence to some degree, as layoffs relating to declining business confidence have not yet materialized. The inversion of the yield curve in Canada reverted to a flatter, slightly positive sloped curve as sentiment improved and yields moved higher.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of December 31, 2019

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	0.5	14.2	14.2	5.0	5.9	6.5	5.9
Multi-Index	-0.1	15.0	15.0	6.0	6.5	6.8	6.0
Canadian Dividend Fund	2.8	22.1	22.1	3.9	5.6	10.4	6.6
S&P / TSX Index	0.5	22.9	22.9	5.8	6.9	10.3	6.3
U.S. Equity Fund (\$CAN)	0.3	26.2	26.2	11.4	11.1	10.6	10.6
S&P 500 Index (\$ CAN)	0.6	24.8	24.8	14.1	14.0	12.5	14.2
Money Market Fund	0.2	1.6	1.6	1.5	1.2	1.0	0.9
SCM 91 Day T-Bills	0.1	1.6	1.6	1.5	1.2	1.0	0.9
Fixed Income Fund	-0.8	6.4	6.4	3.8	3.6	3.3	3.3
SCM Universe Bond Index	-1.2	6.9	6.9	4.1	3.6	3.1	3.2
Growth Portfolio	2.1	20.6	20.6	6.0	7.5	9.0	8.0
Multi-Index	0.5	21.2	21.2	7.0	8.4	9.5	8.1
Balanced Growth Portfolio	1.6	17.1	17.1	5.3	6.5	7.5	6.8
Multi-Index	0.2	17.8	17.8	6.3	7.2	8.0	6.9
Balanced Portfolio	1.2	13.2	13.2	4.4	5.3	6.0	5.6
Multi-Index	-0.3	14.0	14.0	5.6	6.0	6.4	5.6
Conservative Portfolio	0.8	8.4	8.4	2.8	3.7	4.2	4.1
Multi-Index	-0.7	10.3	10.3	4.8	4.7	4.7	4.3
Canadian Small Capitalization Equity Fund	6.3	16.1	16.1	-5.3	-3.6	6.4	3.6
BMO NB Small Cap Weighted Index	5.4	15.8	15.8	-2.6	-0.9	7.8	3.2
SmartSeries Income Fund	0.9	9.8	9.8	n/a	n/a	n/a	n/a
Multi-Index	-0.6	10.8	10.8	n/a	n/a	n/a	n/a
SmartSeries 2020 Fund	1.1	14.3	14.3	n/a	n/a	n/a	n/a
Multi-Index	-0.3	14.4	14.4	n/a	n/a	n/a	n/a
SmartSeries 2025 Fund	1.2	15.5	15.5	n/a	n/a	n/a	n/a
Multi-Index	-0.1	15.3	15.3	n/a	n/a	n/a	n/a
SmartSeries 2030 Fund	1.2	16.9	16.9	n/a	n/a	n/a	n/a
Multi-Index	0.0	16.9	16.9	n/a	n/a	n/a	n/a
SmartSeries 2035 Fund	1.4	18.6	18.6	n/a	n/a	n/a	n/a
Multi-Index	0.1	18.4	18.4	n/a	n/a	n/a	n/a
SmartSeries 2040 Fund	1.5	20.4	20.4	n/a	n/a	n/a	n/a
Multi-Index	0.3	19.3	19.3	n/a	n/a	n/a	n/a
SmartSeries 2045 Fund	1.5	21.2	21.2	n/a	n/a	n/a	n/a
Multi-Index	0.4	20.1	20.1	n/a	n/a	n/a	n/a
SmartSeries 2050 Fund	1.6	21.5	21.5	n/a	n/a	n/a	n/a
Multi-Index	0.4	20.9	20.9	n/a	n/a	n/a	n/a
SmartSeries 2055 Fund	1.6	21.7	21.7	n/a	n/a	n/a	n/a
Multi-Index	0.5	21.0	21.0	n/a	n/a	n/a	n/a
Momentum Fund	4.7	30.0	30.0	7.1	6.5	14.2	10.3
S&P / TSX Index	0.5	22.9	22.9	5.8	6.9	10.3	6.3
Preferred Share Fund	4.4	-0.8	-0.8	-5.5	n/a	n/a	n/a
S&P/TSX Preferred Share (TXPR) Index	2.5	3.5	3.5	-2.4	n/a	n/a	n/a

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
FIDELITY FUNDS							
Canadian Opportunities Fund	0.4	24.6	24.6	12.4	9.9	14.1	9.6
S&P / TSX Small and Mid Cap Combined Index	2.3	26.1	26.1	4.8	5.6	9.1	5.0
True North Fund	-0.5	19.9	19.9	7.9	7.7	8.9	7.1
S&P / TSX Index	0.5	22.9	22.9	5.8	6.9	10.3	6.3
International Growth Fund	1.2	28.7	28.7	11.5	15.1	9.6	12.6
Overseas Blend	0.4	21.4	21.4	7.4	11.6	6.8	10.2
Europe Fund	2.3	17.7	17.7	4.9	9.4	4.5	7.8
MSCI Europe Index	1.4	17.5	17.5	4.4	8.5	5.3	7.5
American Disciplined Equity Fund	1.2	28.4	28.4	13.4	13.6	10.6	12.6
S&P 500 Index (\$CAN)	0.6	24.8	24.8	14.1	14.0	12.5	14.2
NorthStar Fund	0.8	7.4	7.4	2.1	3.6	2.8	7.3
MSCI AC World	1.1	20.2	20.2	8.9	11.2	9.4	10.9
Monthly Income Fund	0.3	13.6	13.6	6.4	5.7	6.6	5.9
Monthly Income Blend	0.1	16.5	16.5	6.8	6.9	8.6	6.0
Canadian Asset Allocation Fund	-0.2	16.5	16.5	7.0	7.1	7.7	6.4
Can Asset Alloc Blend	-0.1	16.9	16.9	5.2	5.7	7.7	5.2
Far East Fund	4.0	20.3	20.3	5.8	16.8	11.3	12.9
MSCI AC FE ex Jap (G)	4.8	13.8	13.8	2.8	12.0	9.7	9.5
Emerging Market Fund	6.2	24.4	24.4	n/a	n/a	n/a	n/a
MSCI Emerging Markets (G)	5.0	12.9	12.9	n/a	n/a	n/a	n/a
NorthStar Balanced Fund	-0.2	7.9	7.9	n/a	n/a	n/a	n/a
Northstar Balanced Blend	-0.6	11.9	11.9	n/a	n/a	n/a	n/a
CI FUNDS							
Signature Corporate Bond Fund	0.3	10.8	10.8	n/a	n/a	n/a	n/a
Multi-Index	0.8	11.2	11.2	n/a	n/a	n/a	n/a
Signature Canadian Bond Fund	-1.1	7.3	7.3	4.4	3.6	3.3	3.4
SCM Universe Bond Index	-1.2	6.9	6.9	4.1	3.6	3.1	3.2
Signature High Income Fund	-0.1	18.4	18.4	7.5	6.6	7.0	5.7
Multi-Index	1.2	17.8	17.8	7.1	6.8	9.3	4.8
American Value Fund	-0.4	26.4	26.4	12.2	12.2	10.9	11.8
S&P 500 Index (\$CAN)	0.7	25.1	25.1	14.0	14.0	12.6	14.2
Cambridge Canadian Dividend Fund	2.5	18.4	18.4	n/a	n/a	n/a	n/a
S&P/TSX Composite Total Return Index	0.5	22.9	22.9	n/a	n/a	n/a	n/a
Cambridge Canadian Asset Allocation Corp Fund	0.6	14.8	14.8	5.9	5.4	6.4	6.4
60% S&P/TSX, 40% Dex Universe Bond Total Return	-0.2	16.4	16.4	5.3	5.7	7.5	5.1
Signature Global Resource Corp Class Fund	6.1	9.9	9.9	n/a	n/a	n/a	n/a
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	5.6	23.7	23.7	n/a	n/a	n/a	n/a
Signature Global Dividend Fund	1.8	18.6	18.6	n/a	n/a	n/a	n/a
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	1.5	17.8	17.8	n/a	n/a	n/a	n/a