

Financial and Economic Notes

January 2015 vol.150

Equity Markets

In aggregate, the economy continued to grind forward, but with different countries at varying stages of their respective economic cycles, the transition to growth was not as synchronized as the capital markets might have liked. This unevenness was further accentuated by a wide disparity between winners and losers (countries and companies) from lower oil prices.

The Canadian equity market saw some of its year-to-date gains erased in the fourth quarter, which was a volatile period for Canadian equity market investors. At one point in mid-December, the S&P/TSX Composite index was down 8% quarter-to-date but managed a year-end rally to close out the fourth quarter with a return of -1.5%. While we can find other spots of weakness across sectors, the market's decline was mainly driven by the Energy sector, which was down 16% for the quarter. Why? Essentially because crude oil is down from above \$100 per barrel in June to below \$50 today.

In the US, the S&P 500 gained 4.9% in the fourth quarter (8.8% in CAD). Mid-single digit local currency gains were compounded two-fold in CAD terms by the stronger US dollar.

EAFE equity markets (MSCI EAFE) fell 3.5% in USD (-0.06% in CAD) in the fourth quarter, lagging the US and Canadian markets for a third straight quarter. By region, the UK, France and Japan led EAFE markets lower; however, essentially all EAFE components finished in negative territory.

Highlights

The fourth quarter of 2014 was characterized by generally mixed global economic and financial conditions, and a spectacular decline in oil prices.

Fixed Income Markets

Fixed income markets recorded their largest gains of the year during the fourth quarter of 2014. Bonds benefitted from a strong flight to safety due to increased market uncertainty and deteriorating global economic conditions, with the exception being an improving US economy.

Despite a stronger US outlook, North American bond yields declined sharply throughout the quarter. This was due to a number of factors, including: the selloff in oil and other commodities, equity market volatility (sharp corrections took place in October and December), declining growth forecasts, and a rising risk of deflation within the Eurozone and related countries. Fundamentally, signs of declining inflationary pressure and lower long-run inflation expectations were the primary reasons for the dramatic drop in bond yields, particularly in the long-end of the curve.

Despite weakening Chinese and Emerging Market growth expectations, the UK and the Eurozone remained the centers of attention as their outlooks deteriorated and deflation risk became a focal point. This has significantly increased the probability of intervention by the European Central Bank (ECB) at their next meeting on January 22, 2015. For the first time in history, the ECB is expected to employ a formal Government bond based Quantitative Easing program (QE) in an attempt to keep long-term bond yields low and improve market liquidity. The underlying goals are to help stabilize the financial system and stimulate economic growth.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of December 31, 2014

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	-0.1	9.0	9.0	12.2	9.9	7.5	7.7
Multi-Index	0.1	10.9	10.9	12.0	10.5	7.8	8.2
Canadian Dividend Fund	-2.5	2.0	2.0	10.9	11.3	7.8	10.0
S&P / TSX Index	-0.4	10.6	10.6	11.8	10.2	5.2	7.5
U.S. Equity Fund (\$CAN)	1.7	23.7	23.7	36.8	22.8	19.4	16.3
S&P 500 Index (\$ CAN)	1.3	23.9	23.9	32.3	25.8	20.0	17.8
Money Market Fund	0.1	0.8	0.8	0.8	0.8	0.8	0.8
SCM 91 Day T-Bills	0.1	0.9	0.9	1.0	1.0	1.0	0.9
Canadian Equity Fund	-2.7	0.2	0.2	7.6	7.7	2.5	4.4
S&P / TSX Index	-0.4	10.6	10.6	11.8	10.2	5.2	7.5
Fixed Income Fund	0.4	8.3	8.3	3.9	3.9	5.3	5.7
SCM Universe Bond Index	0.6	8.8	8.8	3.7	3.7	5.1	5.5
Growth Portfolio	-0.2	9.1	9.1	17.9	14.4	n/a	n/a
Multi-Index	-0.4	11.2	11.2	16.1	13.9	n/a	n/a
Balanced Growth Portfolio	-0.1	8.8	8.8	15.3	12.4	n/a	n/a
Multi-Index	-0.2	10.5	10.5	13.0	11.4	n/a	n/a
Balanced Portfolio	0.1	9.1	9.1	11.9	10.2	n/a	n/a
Multi-Index	0.1	9.8	9.8	9.8	8.8	n/a	n/a
Conservative Portfolio	-0.3	7.8	7.8	7.6	7.0	n/a	n/a
Multi-Index	0.3	9.0	9.0	6.6	6.1	n/a	n/a
Small Cap. Canadian Equity Fund	0.1	-0.5	-0.5	11.0	7.4	3.1	9.5
BMO NB Small Cap Weighted Index	-0.3	-2.3	-2.3	2.5	0.9	-3.7	3.0
TSX Momentum	0.5	0.7	0.7	13.4	9.2	1.9	6.8
S&P / TSX Index	-0.4	10.6	10.6	11.8	10.2	5.2	7.5
FIDELITY FUNDS							
Canadian Opportunities Fund	3.3	11.9	11.9	15.3	14.3	8.2	11.9
S&P / TSX Small and Mid Cap Combined Index	0.2	5.7	5.7	8.9	7.5	3.5	8.3
True North Fund	1.4	16.1	16.1	20.6	17.2	10.9	11.7
S&P / TSX Index	-0.4	10.6	10.6	11.8	10.2	5.2	7.5
Overseas Fund	-1.3	7.1	7.1	15.9	16.4	8.4	8.2
MSCI EAFE Index	-1.9	3.7	3.7	16.5	16.0	8.8	7.5
Europe Fund	-2.7	-1.6	-1.6	15.0	19.2	10.5	10.2
MSCI Europe Index	-2.8	2.3	2.3	16.9	16.8	9.8	7.4
American Disciplined Equity Fund	1.8	24.5	24.5	33.3	26.1	18.4	17.0
S&P 500 Index (\$CAN)	1.3	23.9	23.9	32.3	25.8	20.0	17.8
NorthStar Fund	0.3	16.2	16.2	31.8	24.3	15.6	15.3
MSCI World Index	-0.1	14.4	14.4	24.4	20.6	14.1	12.5
Monthly Income Fund	0.3	10.5	10.5	12.3	11.3	10.6	11.3
Multi-Index	0.1	10.9	10.9	12.0	10.5	7.8	8.2
Canadian Asset Allocation Fund	-0.3	12.3	12.3	12.4	9.9	6.5	7.6
Multi-Index	0.1	10.9	10.9	12.0	10.5	7.8	8.2
Far East Fund	-0.9	10.5	10.5	12.5	15.8	n/a	n/a
MSCI AC FE ex Jap (G)	-0.1	12.8	12.8	11.9	14.5	n/a	n/a

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Gross returns as of December 31, 2014

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
CI FUNDS							
Harbour Growth & Income Fund	-1.5	9.2	9.2	11.9	10.5	6.2	7.1
Multi-Index	0.1	10.9	10.9	12.0	10.5	7.8	8.2
Synergy American Fund	0.9	19.9	19.9	31.2	24.4	17.9	16.2
S&P 500 Index (\$CAN)	1.3	23.9	23.9	32.3	25.8	20.0	17.8
Global Managers Corporate Class Fund	-0.5	14.1	14.1	21.8	18.1	13.5	12.2
MSCI World Index	-0.1	14.4	14.4	24.4	20.6	14.1	12.5
Signature Canadian Bond Fund	0.5	9.5	9.5	4.5	4.7	5.8	6.1
SCM Universe Bond Index	0.6	8.8	8.8	3.7	3.7	5.1	5.5
Signature High Income	-0.2	10.3	10.3	10.4	11.4	10.1	11.5
Multi-Index	0.1	10.9	10.9	12.0	10.5	7.8	8.2
American Value	2.1	24.3	24.3	33.5	25.1	19.1	16.8
S&P 500 Index (\$CAN)	1.3	23.9	23.9	32.3	25.8	20.0	17.8
Synergy Global Corporate Class	0.0	14.0	14.0	26.7	23.0	14.9	14.1
MSCI World Index	-0.1	14.4	14.4	24.4	20.6	14.1	12.5
Global Small Companies	2.8	8.1	8.1	25.1	20.8	12.9	14.7
MSCI World Index	-0.1	14.4	14.4	24.4	20.6	14.1	12.5
Cambridge Canadian Asset Allocation Fund	0.9	12.9	12.9	n/a	n/a	n/a	n/a
60% S&P/TSX, 40% Dex Universe Bond Total Return	0.0	9.9	9.9	n/a	n/a	n/a	n/a
Signature Diversified Yield II Fund	-0.2	11.1	11.1	n/a	n/a	n/a	n/a
40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index	-1.0	10.6	10.6	n/a	n/a	n/a	n/a
AGF FUNDS							
Dividend Income Fund	-1.4	5.5	5.5	10.4	8.9	6.0	8.0
S&P / TSX Index	-0.7	12.3	12.3	12.8	11.2	5.7	7.3
International Stock Class Fund	-2.8	-0.8	-0.8	14.4	15.1	6.9	3.5
MSCI EAFE Index	-2.0	5.1	5.1	17.4	16.6	9.4	8.1
Total Return Bond Fund	-0.3	8.9	8.9	7.6	9.4	n/a	n/a
Multi-Index	-0.3	11.6	11.6	9.7	10.8	n/a	n/a
Emerging Markets Fund	-2.2	10.3	10.3	2.2	7.3	n/a	n/a
MSCI Emerging markets Free TR Index	-2.9	7.4	7.4	6.0	9.2	n/a	n/a
Global Resources Class Fund	-2.2	-8.9	-8.9	-1.4	-3.7	n/a	n/a
Multi-Index	0.4	0.2	0.2	10.0	7.9	n/a	n/a