

Financial and Economic Notes

October 2019 vol. 169

Equity Markets

After experiencing a strong first half of the year, Canadian equities added to their gains in the third quarter with a 2.5 % return. Breadth was strong with nine of eleven sectors posting gains during the period. Interest sensitive sectors offered abnormally high returns with Utilities (+10%) and Real Estate (+9%) leading the way. Consumer Staples (+6%) and Financials (+5%) were also notable performers. Health Care (-30%) and Industrials (-1%) were the weaker performers while Energy (+1%) and Materials (0%) didn't contribute much.

Despite the lack of meaningful progress in US-China trade negotiations and the corresponding weakness in economic indicators, the S&P 500 continued to find its way higher, posting a 1.7% return in USD. The market was (and still is) hoping for additional monetary stimulus to help offset this and the Fed did not disappoint as it cut interest rates twice, offering support to equity valuation. The loonie weakened modestly, leading to a 3.0% return for Canadian investors.

Following a strong first half, EAFE equities ended up range bound this quarter with the MSCI Index finishing the quarter up 0.2% in Canadian dollars. Themes remain mostly the same as previous quarters with sluggish macro-economic data, Brexit uncertainty after Boris Johnson became the UK's new prime minister and continued back and forth between the US and China as negotiations go nowhere fast.

Highlights

Equities have been able to add to their gains from earlier in the year. Investor sentiment continues to be challenged by trade tensions and evidence of slowing global growth.

Fixed Income Markets

Fixed income markets returned to the now familiar tune of heightened warnings of a global slowdown, recession risk and the need for central bank intervention. The catalyst for the deteriorating outlook is a bit different this time around, however, as interest rates are already low with businesses benefitting from spending and tax cut measures as well as low finance rates. In contrast to prior slowdowns, the primary driver this quarter has been negative impact of intensifying trade conflicts and geopolitical risks that has weighed on business and investor confidence. As a result, central bankers are limited going forward in the levers available to them for addressing further economic slowdown and instability. Despite this, central banks marched forward with a united front and introduced easier monetary conditions through overnight rate cuts and including the re-introduction of QE during the quarter.

During the quarter, the Bank of Canada maintained their policy rate of 1.75% as core inflation remains near target at 2.1% (September) and housing has shown a sharp recovery, thereby, reducing the probability for a rate cut in Canada over the near term. Unemployment remains stable at 5.5% while GDP growth in Canada is expected to slow to 1.5% for overall 2019 as commodity and trade conflict weigh on growth. In contrast, the US has already largely unwound their most recent tightening in policy with two consecutive rate cuts, including a 25-basis point cut in July and another 25-basis point cut in September with a federal funds target rate currently of 1.75 - 2.0%. Unemployment in the US remains at a record low of 3.5% and GDP growth is expected to be 2.3% this year.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of September 30, 2019

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	0.9	11.3	5.8	5.7	5.8	6.6	5.6
Multi-Index	0.6	12.4	7.2	6.7	6.1	6.7	5.9
Canadian Dividend Fund	2.3	16.7	5.5	4.4	5.7	9.2	4.4
S&P / TSX Index	1.7	19.1	7.1	6.5	7.4	9.0	5.3
U.S. Equity Fund (\$CAN)	1.6	21.5	9.7	13.8	12.8	11.3	11.3
S&P 500 Index (\$ CAN)	1.5	16.9	6.8	14.1	13.7	13.5	14.7
Money Market Fund	0.1	1.2	1.7	1.4	1.1	0.9	0.9
SCM 91 Day T-Bills	0.1	1.2	1.7	1.4	1.1	0.9	0.9
Fixed Income Fund	-0.6	6.8	8.3	5.0	2.8	3.6	3.8
SCM Universe Bond Index	-0.8	7.8	9.7	5.6	2.7	3.6	3.9
Growth Portfolio	0.9	14.6	4.9	6.3	6.6	8.5	6.9
Multi-Index	1.7	16.1	5.7	7.2	8.3	9.1	7.3
Balanced Growth Portfolio	0.7	12.4	4.7	5.7	5.5	7.1	6.0
Multi-Index	1.2	14.1	6.5	6.8	7.0	7.8	6.5
Balanced Portfolio	0.5	9.8	4.3	4.9	4.5	5.9	5.2
Multi-Index	0.5	11.9	7.5	6.4	5.6	6.4	5.6
Conservative Portfolio	0.6	6.2	2.4	3.2	2.8	4.1	3.9
Multi-Index	-0.1	9.7	8.5	5.9	4.1	4.9	4.7
Canadian Small Capitalization Equity Fund	3.3	11.7	-2.4	-4.3	-2.6	6.2	1.3
BMO NB Small Cap Weighted Index	-2.8	9.1	-6.6	-3.3	-1.8	6.5	0.1
SmartSeries Income Fund	0.8	7.3	n/a	n/a	n/a	n/a	n/a
Multi-Index	-0.1	9.8	n/a	n/a	n/a	n/a	n/a
SmartSeries 2020 Fund	1.1	10.8	n/a	n/a	n/a	n/a	n/a
Multi-Index	0.5	12.1	n/a	n/a	n/a	n/a	n/a
SmartSeries 2025 Fund	1.2	11.6	n/a	n/a	n/a	n/a	n/a
Multi-Index	0.7	12.4	n/a	n/a	n/a	n/a	n/a
SmartSeries 2030 Fund	1.4	12.6	n/a	n/a	n/a	n/a	n/a
Multi-Index	0.9	13.4	n/a	n/a	n/a	n/a	n/a
SmartSeries 2035 Fund	1.5	13.7	n/a	n/a	n/a	n/a	n/a
Multi-Index	1.2	14.2	n/a	n/a	n/a	n/a	n/a
SmartSeries 2040 Fund	1.7	15.1	n/a	n/a	n/a	n/a	n/a
Multi-Index	1.3	14.6	n/a	n/a	n/a	n/a	n/a
SmartSeries 2045 Fund	1.8	15.6	n/a	n/a	n/a	n/a	n/a
Multi-Index	1.5	15.1	n/a	n/a	n/a	n/a	n/a
SmartSeries 2050 Fund	1.8	15.7	n/a	n/a	n/a	n/a	n/a
Multi-Index	1.6	15.5	n/a	n/a	n/a	n/a	n/a
SmartSeries 2055 Fund	1.8	15.7	n/a	n/a	n/a	n/a	n/a
Multi-Index	1.6	15.4	n/a	n/a	n/a	n/a	n/a
Momentum Fund	-8.9	20.6	-3.4	8.1	5.2	11.3	7.4
S&P / TSX Index	1.7	19.1	7.1	6.5	7.4	9.0	5.3
Preferred Share Fund	2.9	-5.9	-18.8	-6.6	n/a	n/a	n/a
S&P/TSX Preferred Share (TXPR) Index	3.3	-0.4	-10.4	-2.9	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	1.6	19.6	16.3	12.0	9.3	13.0	9.8
S&P / TSX Small and Mid Cap Combined Index	0.7	19.3	2.9	3.4	4.1	7.5	2.8
True North Fund	1.1	17.4	10.4	8.7	7.8	8.5	7.6
S&P / TSX Index	1.7	19.1	7.1	6.5	7.4	9.0	5.3
International Growth Fund	0.8	18.5	9.7	9.9	10.5	9.6	11.5
Overseas Blend	0.8	14.3	4.7	7.0	8.0	7.9	9.1
Europe Fund	2.2	8.1	-1.6	1.1	6.8	3.8	5.9
MSCI Europe Index	2.4	10.2	1.7	2.4	6.8	5.2	5.9
American Disciplined Equity Fund	0.5	19.0	6.5	13.2	12.4	11.0	12.9
S&P 500 Index (\$CAN)	1.5	16.9	6.8	14.1	13.7	13.5	14.7
NorthStar Fund	0.5	0.4	-2.4	1.2	1.6	2.3	6.3
MSCI AC World	1.7	12.6	3.8	8.5	10.0	9.9	10.3
Monthly Income Fund	0.0	11.5	10.0	6.4	5.1	6.5	6.2
Monthly Income Blend	0.6	14.4	10.3	7.4	6.5	8.1	5.7
Canadian Asset Allocation Fund	0.7	14.8	10.6	8.2	6.6	7.7	6.2
Can Asset Alloc Blend	0.9	14.8	7.8	6.1	5.7	7.1	4.8
Far East Fund	1.5	12.7	7.7	7.9	11.2	11.9	12.5
MSCI AC FE ex Jap (G)	1.2	3.2	-1.7	1.7	6.9	9.2	8.2
Emerging Market Fund	2.1	14.2	10.2	n/a	n/a	n/a	n/a
MSCI Emerging Markets (G)	1.6	3.0	0.8	n/a	n/a	n/a	n/a
NorthStar Balanced Fund	0.2	4.4	5.3	n/a	n/a	n/a	n/a
Northstar Balanced Blend	0.3	9.2	8.9	n/a	n/a	n/a	n/a
CI FUNDS							
Signature Corporate Bond Fund	-0.1	9.3	7.4	n/a	n/a	n/a	n/a
Multi-Index	-0.1	9.7	7.6	n/a	n/a	n/a	n/a
Signature Canadian Bond Fund	-0.8	8.1	10.1	5.7	2.8	3.8	4.1
SCM Universe Bond Index	-0.8	7.8	9.7	5.6	2.7	3.6	3.9
Harbour Growth & Income Fund	1.0	9.8	-0.3	0.0	0.9	3.3	2.7
Multi-Index	0.7	14.6	8.3	6.3	5.6	6.9	4.9
Signature High Income Fund	1.1	15.8	10.3	7.4	6.2	6.8	5.4
Multi-Index	1.2	15.7	11.9	7.2	6.5	8.1	3.6
American Value Fund	1.2	18.1	5.7	11.9	12.1	11.6	12.5
S&P 500 Index (\$CAN)	1.4	17.0	6.9	14.2	13.8	13.7	14.6
Cambridge Canadian Dividend Fund	1.1	12.8	6.5	n/a	n/a	n/a	n/a
S&P/TSX Composite Total Return Index	1.7	19.1	7.1	n/a	n/a	n/a	n/a
Global Small Companies Fund	2.0	7.1	-8.0	0.3	3.9	4.7	7.8
MSCI World Index	1.6	14.1	4.4	9.7	10.6	10.3	10.8
Cambridge Canadian Asset Allocation Corp Fund	0.4	11.9	6.2	5.6	5.2	6.2	6.6
60% S&P/TSX, 40% Dex Universe Bond Total Return	0.7	14.6	8.3	6.3	5.6	6.9	4.9
Signature Global Resource Corp Class Fund	2.2	1.9	-21.3	n/a	n/a	n/a	n/a
50% S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	-0.8	15.0	5.3	n/a	n/a	n/a	n/a
Signature Global Dividend Fund	2.2	11.9	3.1	n/a	n/a	n/a	n/a
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	2.9	10.9	7.3	n/a	n/a	n/a	n/a