

Financial and Economic Notes

October 2017 vol.161

Equity Markets

Canadian equities have climbed 3.7% this quarter after muted progress during the first half of the year. Sector breadth was solid with seven of eleven sectors offering positive returns. As crude oil price recovered from its recent weakness, the always volatile Energy sector was the top performer with a +6.6% return only, thus highlighting the dispersion of the market strength among various sectors. Financials (+4.5%) offered a nice contribution with its significant weight as investors become less fearful of commercial and personal credit in Canada. Consumer Discretionary (+4.7%) was also strong while Health Care (-10.2%) and Consumer Staples (-2.7%) were the weaker sectors within the S&P/TSX Composite.

The S&P 500's winning streak continues, notching its eighth consecutive quarterly gain, with a +4.5% total return in USD during the third quarter. Once again, a stronger Canadian dollar limited gains for Canadian investors, with the index returning just +0.6% in CAD terms. Despite the typical summer slowdown, the market continued to grind higher with seemingly little drama. Economic indicators remain positive and investors are willing to pay up for growth. These same trends have largely been in place all year. In fact, large cap growth stocks outperformed large cap value stocks a staggering 1,280 bps year-to-date.

While the gain was more modest than the last couple of quarters given the strength of the Canadian dollar, this was another steady quarter for EAFE equities with a positive 1.5% return in Canadian dollars. We've seen continuous improvement with most economic indicators across the Eurozone and Japan and the deflation trade picking up again as data continues to suggest strong demand for the commodities. European countries were once again the leaders this quarter, helped by the Euro currency, which held up well against the Canadian dollar. This is due to the possibility that the ECB could reduce its stimulus measures.

Highlights

In a repeat performance from last quarter, investors are accumulating nice gains from their equity investments without having to suffer much in volatility.

Fixed Income Markets

The Canadian economy delivered exceptional results during the quarter, with economic growth dramatically exceeding expectations. Canadian data released in the third quarter was very strong with above average second quarter GDP growth of 4.5% year over year (3.8% year-over-year growth in July), wage growth of 2 % year over year and a decline in the jobless rate to 6.2%. Inflation pressures continue to remain well under control with August CPI at 1.4% year over year. Economic performance has been led by consumer spending with strong auto sales and durable goods leading the economy. The tightening in labour market conditions and the stabilization in oil prices also contributed to confidence, while at the same time a rise in consumer debt-to-income levels helped finance the increase in expenditures over the period.

The Bank of Canada acknowledged the unexpected surge in growth by implementing two consecutive 25 basis point rate hikes during the quarter, raising the overnight lending rate to 1%. As a result, the Canadian yield curve rose and flattened during the quarter due to the market pricing in further rate hikes. The market is expecting at least one additional rate increase by the end of the year, resulting in at least three or four potential rate hikes this year, which is in sharp contrast to an ultra dovish Bank of Canada that began the year. Higher interest rates, weakening in the housing sector and a return to average consumer spending levels is expected to temper growth in Canada going forward although government and business spending, and strong global growth should help keep performance stable.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of September 30, 2017

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	1.3	3.5	5.9	7.4	5.5	7.8	8.4
Multi-Index	1.0	4.0	5.1	7.3	6.0	8.2	8.3
Canadian Dividend Fund	3.1	3.2	8.4	14.2	4.4	7.5	8.8
S&P / TSX Index	3.1	4.4	9.2	11.7	4.5	8.3	8.1
U.S. Equity Fund (\$CAN)	3.1	1.9	10.6	8.9	9.7	15.4	18.1
S&P 500 Index (\$ CAN)	1.8	6.5	12.9	13.0	15.0	18.7	19.8
Money Market Fund	0.1	0.3	0.4	0.4	0.5	0.6	0.6
SCM 91 Day T-Bills	0.0	0.3	0.5	0.5	0.6	0.7	0.7
Canadian Equity Fund	3.2	2.9	8.6	14.8	2.3	6.2	6.8
S&P / TSX Index	3.1	4.4	9.2	11.7	4.5	8.3	8.1
Fixed Income Fund	-1.1	1.3	-1.5	2.3	3.1	3.9	3.0
SCM Universe Bond Index	-1.3	0.5	-3.0	1.6	2.8	3.7	2.7
Growth Portfolio	1.5	4.4	7.3	10.7	7.3	10.1	12.1
Multi-Index	2.6	6.2	10.5	11.1	7.4	10.4	11.2
Balanced Growth Portfolio	1.2	3.8	5.0	8.6	6.1	8.6	10.2
Multi-Index	1.7	4.9	7.4	8.9	6.2	8.8	9.1
Balanced Portfolio	0.4	3.0	3.8	6.8	5.4	7.4	8.2
Multi-Index	0.7	3.4	3.9	6.4	5.1	7.0	6.9
Conservative Portfolio	0.0	2.4	1.9	5.0	4.3	5.8	5.7
Multi-Index	-0.3	1.9	0.5	3.9	3.9	5.2	4.7
Canadian Small Capitalization Equity Fund	-3.7	-5.8	1.0	18.0	5.3	7.9	9.5
BMO NB Small Cap Weighted Index	2.1	-1.9	1.2	17.2	2.5	5.3	3.9
Momentum Fund	-1.4	-4.1	-0.3	14.6	6.9	8.7	10.5
S&P / TSX Index	3.1	4.4	9.2	11.7	4.5	8.3	8.1
FIDELITY FUNDS							
Canadian Opportunities Fund	2.7	1.7	4.2	14.0	8.4	9.7	10.9
S&P / TSX Small and Mid Cap Combined Index	1.6	4.0	5.5	11.7	2.4	6.1	6.0
True North Fund	2.6	3.5	6.0	8.3	6.9	10.0	11.8
S&P / TSX Index	3.1	4.4	9.2	11.7	4.5	8.3	8.1
International Growth Fund	1.7	16.4	11.7	9.4	12.6	13.1	14.9
MSCI EAFE Index	2.2	11.9	13.3	8.8	9.1	10.1	13.7
Europe Fund	2.9	17.4	19.1	6.6	9.3	9.8	13.4
MSCI Europe Index	3.0	14.5	16.4	8.1	8.3	10.0	13.7
American Disciplined Equity Fund	2.3	6.1	10.7	8.8	12.7	17.0	18.5
S&P 500 Index (\$CAN)	1.8	6.5	12.9	13.0	15.0	18.7	19.8
NorthStar Fund	0.2	1.5	2.4	3.4	9.8	13.8	18.5
MSCI World Index	2.0	8.2	12.4	10.8	11.8	14.3	16.5
Monthly Income Fund	0.2	2.6	2.6	6.7	6.1	7.5	8.4
Multi-Index	1.0	4.0	5.1	7.3	6.0	8.2	8.3
Canadian Asset Allocation Fund	0.8	3.3	3.4	7.2	4.9	8.0	7.9
Multi-Index	1.0	4.0	5.1	7.3	6.0	8.2	8.3
Far East Fund	0.8	28.1	18.1	16.0	15.7	15.4	15.4
MSCI AC FE ex Jap (G)	0.0	23.2	18.1	17.1	12.8	13.4	13.2

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
CI FUNDS							
Harbour Growth & Income Fund	-0.2	2.1	2.7	6.8	4.6	7.2	7.4
Multi-Index	1.0	4.0	5.1	7.3	6.0	8.2	8.3
Synergy American Fund	1.9	6.8	11.4	9.5	11.6	15.9	18.3
S&P 500 Index (\$CAN)	1.8	6.5	12.9	13.0	15.0	18.7	19.8
Global Managers Corporate Class Fund	1.9	7.9	11.9	10.8	10.9	12.8	14.7
MSCI World Index	2.0	8.2	12.4	10.8	11.8	14.3	16.5
Signature Canadian Bond Fund	-1.1	0.5	-2.7	1.9	3.1	4.1	3.3
SCM Universe Bond Index	-1.3	0.5	-3.0	1.6	2.8	3.7	2.7
Signature High Income Fund	0.8	2.7	3.7	6.3	4.1	6.5	7.0
Multi-Index	1.0	4.0	5.1	7.3	6.0	8.2	8.3
American Value Fund	2.7	5.4	12.5	11.2	13.0	16.5	18.7
S&P 500 Index (\$CAN)	1.8	6.5	12.9	13.0	15.0	18.7	19.8
Synergy Global Corporate Class Fund	1.9	8.1	12.5	8.5	10.8	14.0	17.1
MSCI World Index	2.0	8.2	12.4	10.8	11.8	14.3	16.5
Global Small Companies Fund	4.5	6.2	11.6	9.4	13.1	13.4	17.2
MSCI World Index	2.0	8.2	12.4	10.8	11.8	14.3	16.5
Cambridge Canadian Asset Allocation Fund	0.8	2.4	4.4	6.7	7.0	9.0	10.7
60% S&P/TSX, 40% Dex Universe Bond Total Return	1.3	2.9	4.2	7.6	3.9	6.5	6.0
Signature Diversified Yield II Fund	0.8	4.0	5.0	6.6	5.8	7.4	8.2
40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index	0.2	4.7	4.9	8.8	7.7	9.2	10.0