

Financial and Economic Notes

October 2016 vol.157

Equity Markets

The strong year for our domestic market continues. The S&P/TSX Composite maintained its return generation pace with a +5.5% performance in the third quarter, which brings the year to date return to an impressive +15.8%. Global equity sentiment was clearly firm this summer but Canada is also benefiting from a more constructive investor attitude towards the resource sector. Despite a quarter where most key commodities finished flat to slightly lower, this failed to dissuade investors to buy equities. In fact, sector breadth was strong with just two of eleven sectors offering just slightly negative returns.

The S&P 500 index posted a healthy 3.9% total return in USD during the third quarter, the strongest quarterly return this year. In CAD terms, the S&P 500 returned 5.1%, as the loonie depreciated slightly. The bulk of the returns were made in the first two weeks of July. The summer quarter started with the lingering uncertainty from the Brexit vote, but the market quickly settled into a low volatility setting. We saw several weeks without a 1% positive or negative daily move in the index amid a directionless market. Toward the end of the quarter we saw a shift away from interest rate sensitive sectors, despite the Federal Reserve continuing to stand pat on interest rates. The messaging is that rates will rise before year-end and it appears investors are beginning to factor this in. The chase of income stocks has been strong this year and a pullback was not unexpected.

While the second quarter was all about Brexit, the third quarter benefited from a relatively calm macro environment for international equity investing. In fact, the gradual equity recovery we experienced in the quarter was also rather even and orderly. The end result was a healthy +7.7% return for the MSCI EAFE Index in Canadian dollars.

Highlights

We think we can attribute the broadly positive equity returns for this quarter to everybody just getting a little more comfortable with everything.

Fixed Income Markets

The third quarter of 2016 marked a return in focus on economic fundamentals driving trading and overall risk tone across markets. The market quickly absorbed the outcome of the Brexit vote following supporting intervention by the Bank of England and moved the attention back to the overall improving economic data that took place over the quarter. The growth outlook for both the US and Canada remains solid going into year end with third quarter GDP growth rates projected to come in at or above 3% while fourth quarter numbers are projected to hold in the mid 2% range. The US experienced a dampening effect to its growth trajectory as it suffered through the second largest amount of rainfall during the month of August in over 95 years while Canadian growth continued to recover following the Fort McMurray wildfires.

The US and Canadian labour markets have continued to strengthen although inflation remains subdued, resulting in no policy rate actions by the US Federal Reserve and Bank of Canada during the period. The US currently remains on the brink of implementing rate hikes with the possibility of a hike this year at either the November or December meeting, while the Bank of Canada remains highly dovish with a bias toward easing if economic conditions deteriorate. This contrast in the central bank policy bias should support the weakening trend in CAD/USD currency over the next few quarters.

The Canadian yield curve shifted down and flattened over the quarter, driven by lower long bond yields as the first quantitative easing measures by the Bank of England commenced in August. This brought UK yields lower as the Central Bank purchased domestic bonds across the curve and effectively lowered long global yield levels as the move in gilts pervaded global yields.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of September 30, 2016

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	0.4	5.7	9.0	5.2	8.4	9.1	8.8
Multi-Index	0.7	6.6	9.5	6.5	9.2	9.1	9.2
Canadian Dividend Fund	0.7	20.0	20.3	2.4	7.1	8.9	10.3
S&P / TSX Index	1.2	15.8	14.2	2.3	8.0	7.8	8.1
U.S. Equity Fund (\$CAN)	-1.1	0.4	7.3	9.2	17.1	20.1	18.5
S&P 500 Index (\$ CAN)	0.2	2.0	13.2	16.2	20.7	21.7	22.0
Money Market Fund	0.0	0.4	0.4	0.5	0.6	0.6	0.7
SCM 91 Day T-Bills	0.0	0.4	0.5	0.6	0.7	0.8	0.8
Canadian Equity Fund	0.8	19.7	21.3	-0.7	5.4	6.3	7.2
S&P / TSX Index	1.2	15.8	14.2	2.3	8.0	7.8	8.1
Fixed Income Fund	0.3	5.1	6.1	5.4	5.8	4.2	4.5
SCM Universe Bond Index	0.2	5.3	6.3	5.8	6.0	4.1	4.4
Growth Portfolio	0.9	10.6	14.1	7.3	11.0	13.4	12.9
Multi-Index	1.0	8.5	11.7	5.9	10.4	11.4	11.3
Balanced Growth Portfolio	0.7	9.0	12.2	6.7	9.9	11.5	11.2
Multi-Index	0.8	7.8	10.4	5.7	9.2	9.6	9.6
Balanced Portfolio	0.5	7.3	9.9	6.2	8.7	9.3	9.2
Multi-Index	0.6	6.9	8.9	5.7	8.1	7.7	7.8
Conservative Portfolio	0.5	6.4	8.3	5.5	7.1	6.6	6.9
Multi-Index	0.4	6.0	7.5	5.6	6.9	5.8	6.0
Canadian Small Capitalization Equity Fund	1.8	33.1	37.8	7.5	10.3	11.7	11.2
BMO NB Small Cap Weighted Index	3.1	34.3	35.8	3.1	6.7	4.6	4.8
Momentum Fund	2.2	35.6	31.8	10.8	11.9	13.4	11.1
S&P / TSX Index	1.2	15.8	14.2	2.3	8.0	7.8	8.1
FIDELITY FUNDS							
Canadian Opportunities Fund	1.5	24.3	24.7	10.6	11.6	12.6	12.2
S&P / TSX Small and Mid Cap Combined Index	1.3	18.7	18.3	0.9	6.2	6.1	7.0
True North Fund	0.2	9.8	10.6	7.3	11.3	13.3	12.9
S&P / TSX Index	1.2	15.8	14.2	2.3	8.0	7.8	8.1
International Growth Fund	1.0	-1.5	7.1	13.1	13.5	15.7	14.7
MSCI EAFE Index	1.4	-3.8	4.4	7.0	9.1	13.8	12.6
Europe Fund	1.0	-10.1	-4.7	4.6	6.8	12.0	13.8
MSCI Europe Index	1.0	-5.4	0.5	4.5	7.9	13.0	12.6
American Disciplined Equity Fund	0.0	-2.1	6.9	13.6	19.2	20.5	20.8
S&P 500 Index (\$CAN)	0.2	2.0	13.2	16.2	20.7	21.7	22.0
NorthStar Fund	1.4	-0.6	4.4	13.7	17.8	22.9	20.1
MSCI World Index	0.7	-0.1	9.2	11.5	14.9	17.5	17.0
Monthly Income Fund	0.5	9.0	11.0	7.9	9.2	9.9	10.4
Multi-Index	0.7	6.6	9.5	6.5	9.2	9.1	9.2
Canadian Asset Allocation Fund	1.2	9.4	11.1	5.7	9.6	9.1	8.6
Multi-Index	0.7	6.6	9.5	6.5	9.2	9.1	9.2
Far East Fund	1.6	4.4	13.9	14.6	14.4	14.7	14.8
MSCI AC FE ex Jap (G)	2.1	7.3	16.2	10.2	11.9	12.0	12.5

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
CI FUNDS							
Harbour Growth & Income Fund	0.1	9.5	10.9	5.5	8.8	8.6	9.1
Multi-Index	0.7	6.6	9.5	6.5	9.2	9.1	9.2
Synergy American Fund	1.1	-0.5	7.6	11.7	17.5	20.1	19.8
S&P 500 Index (\$CAN)	0.2	2.0	13.2	16.2	20.7	21.7	22.0
Global Managers Corporate Class Fund	0.5	2.5	9.7	10.4	13.1	15.4	14.9
MSCI World Index	0.7	-0.1	9.2	11.5	14.9	17.5	17.0
Signature Canadian Bond Fund	0.3	5.6	6.8	6.1	6.5	4.8	5.2
SCM Universe Bond Index	0.2	5.3	6.3	5.8	6.0	4.1	4.4
Signature High Income Fund	0.6	7.2	8.9	4.3	7.5	7.9	9.4
Multi-Index	0.7	6.6	9.5	6.5	9.2	9.1	9.2
American Value Fund	0.0	0.2	9.9	13.2	17.8	20.3	19.7
S&P 500 Index (\$CAN)	0.2	2.0	13.2	16.2	20.7	21.7	22.0
Synergy Global Corporate Class Fund	0.9	-3.3	4.6	9.9	14.5	18.3	17.7
MSCI World Index	0.7	-0.1	9.2	11.5	14.9	17.5	17.0
Global Small Companies Fund	1.1	0.1	7.2	13.9	14.0	18.6	18.0
MSCI World Index	0.7	-0.1	9.2	11.5	14.9	17.5	17.0
Cambridge Canadian Asset Allocation Fund	0.5	6.9	9.0	8.4	10.6	12.3	11.7
60% S&P/TSX, 40% Dex Universe Bond Total Return	0.8	11.6	11.1	3.8	7.3	6.4	6.7
Signature Diversified Yield II Fund	0.4	6.1	8.2	6.2	8.2	9.0	10.4
40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index	0.4	9.2	12.8	9.2	10.6	11.3	13.6
AGF FUNDS							
Dividend Income Fund	0.6	12.3	16.0	4.0	8.9	8.4	9.5
S&P / TSX 60 Index	1.2	14.9	13.0	2.8	8.6	8.4	8.4
Total Return Bond Fund	0.1	6.4	7.9	5.3	7.7	7.1	8.5
Multi-Index	0.7	7.2	11.2	13.3	13.9	12.0	11.6
Emerging Markets Fund	1.6	10.8	15.6	5.5	7.8	5.8	7.2
MSCI Emerging markets Free Index	1.5	10.4	15.6	5.5	8.2	7.7	8.2
Global Resources Class Fund	3.1	21.1	23.2	-11.6	-2.2	-2.0	-2.3
60% MSCI World Energy Index/40% MSCI World Materials Index	2.8	13.1	19.3	0.7	6.0	7.6	8.3