

Financial and Economic Notes

January 2018 vol.162

Equity Markets

The second half of the year continued to be more rewarding than the first for Canadian equity investors. A strong performance of +4.5% in the final quarter of the year brings the 2017 return to +9.1%. While the Canadian market is often known for and strongly influenced by its resource sectors, the strength was very much broad-based this quarter. All eleven sectors generated positive returns.

The S&P 500 index posted a strong final quarter, delivering a 6.8% total return in CAD terms. For the year 2017, the S&P 500 returned 21.8%, which translated into 13.8% in CAD terms given the strength of the loonie. The market saw a continuation of earlier trends, including strong domestic and global economic signals, record low volatility, and faith that the Trump administration will continue to stoke economic growth. The year was capped off with the passing of tax reform legislation, a boon to some as the corporate tax rate has been cut from 35% to 21% as of January 1, 2018. Growth continued to dominate value in the quarter, but not as heavily as earlier in 2017.

This was another strong quarter for EAFE equities with a positive 4.4% return, finishing the year with a total return of 16.8% in CAD terms. The themes were generally the same as the previous few quarters with economic data continuing to be encouraging and corporate earnings exceeding expectations. Some of the highlights of the quarter were Prime Minister Abe's election victory in Japan, which was well received by investors and some of the noise related to the Brexit negotiations.

Highlights

All important equity markets for Canadian investors offered good quarterly returns to close out a profitable 2017.

Fixed Income Markets

The Canadian economy continued to benefit on many fronts as positive market conditions and risk sentiment remained extremely constructive. Following the exceptional performance in the second quarter, with GDP growth of 4.3%, the Canadian economy slowed somewhat but met expectations in the second half of the year, with an overall growth of 3% for the full year, outperforming the US which had growth of 2.3% for the year. The strength of Canadian job growth also took the market by surprise as Canada produced strong gains in full time jobs and wages. The Canadian unemployment rate reached a multi decade low of 5.9% and 2017 proved to be the best year for job growth since 2002. Several factors have helped contribute to the outperformance of the Canadian economy including the stabilization of oil prices, improving business investments and retail sales, strong global growth and stimulative monetary conditions. Over the quarter, the Bank of Canada maintained their overnight lending rate at 1% while the US Federal Reserve raised rates in December by 0.25% to a target range of 1.25% to 1.50%.

The Canadian yield curve flattened considerably over the quarter as strong economic data increased the likelihood of rate hikes, while long duration buyers such as life insurance companies and pension plans, continued to step into the market, primarily purchasing long Canada and provincial bonds. In the fourth quarter, two-year yields increased 17 basis points to 1.69% while five-year bond yields increased 11 basis points to 1.86%. During the same period, Canadian ten-year bond yields declined 6 basis points to 2.04%, while the thirty-year Canada yield declined 21 basis points to 2.26%.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of December 31, 2017

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	0.1	7.7	7.7	8.0	6.6	7.2	8.8
Multi-Index	-0.2	7.9	7.9	7.8	6.7	7.7	8.7
Canadian Dividend Fund	0.9	9.0	9.0	17.2	8.5	6.8	9.4
S&P / TSX Index	1.2	9.1	9.1	14.9	6.6	7.6	8.6
U.S. Equity Fund (\$CAN)	0.0	10.4	10.4	9.7	10.0	13.3	20.0
S&P 500 Index (\$ CAN)	-1.7	13.8	13.8	10.9	14.4	16.7	21.2
Money Market Fund	0.1	0.6	0.6	0.5	0.5	0.6	0.6
SCM 91 Day T-Bills	0.0	0.6	0.6	0.5	0.6	0.7	0.7
Canadian Equity Fund	1.2	9.3	9.3	17.6	7.8	5.9	7.7
S&P / TSX Index	1.2	9.1	9.1	14.9	6.6	7.6	8.6
Fixed Income Fund	-0.3	3.3	3.3	2.8	3.0	4.3	3.3
SCM Universe Bond Index	-0.4	2.5	2.5	2.1	2.6	4.1	3.0
Growth Portfolio	0.8	10.6	10.6	12.1	9.4	9.3	12.7
Multi-Index	0.1	11.3	11.3	12.1	8.8	9.4	11.6
Balanced Growth Portfolio	0.6	9.2	9.2	9.7	7.8	8.0	10.7
Multi-Index	0.0	9.1	9.1	9.8	7.3	8.1	9.5
Balanced Portfolio	0.3	7.3	7.3	7.7	6.4	7.1	8.6
Multi-Index	-0.1	6.9	6.9	7.2	5.7	6.7	7.3
Conservative Portfolio	-0.1	5.5	5.5	5.7	5.1	5.8	6.1
Multi-Index	-0.2	4.6	4.6	4.5	4.0	5.3	5.0
Canadian Small Capitalization Equity Fund	6.5	0.0	0.0	19.5	10.0	7.3	10.4
BMO NB Small Cap Weighted Index	2.6	2.8	2.8	19.3	7.2	4.8	5.3
Momentum Fund	6.6	5.4	5.4	21.9	12.5	9.4	12.9
S&P / TSX Index	1.2	9.1	9.1	14.9	6.6	7.6	8.6
FIDELITY FUNDS							
Canadian Opportunities Fund	0.2	5.2	5.2	15.8	7.7	8.8	10.7
S&P / TSX Small and Mid Cap Combined Index	1.4	7.0	7.0	13.6	5.1	5.3	6.6
True North Fund	0.3	7.3	7.3	9.8	6.6	8.9	12.0
S&P / TSX Index	1.2	9.1	9.1	14.9	6.6	7.6	8.6
International Growth Fund	-0.9	22.7	22.7	7.7	13.4	11.8	14.4
MSCI EAFE Index	-1.2	16.8	16.8	6.7	10.7	8.9	13.0
Europe Fund	-0.9	18.8	18.8	4.1	9.7	6.8	11.8
MSCI Europe Index	-1.3	17.3	17.3	6.2	9.5	7.7	12.4
American Disciplined Equity Fund	-1.4	14.1	14.1	8.0	12.0	15.0	20.1
S&P 500 Index (\$CAN)	-1.7	13.8	13.8	10.9	14.4	16.7	21.2
NorthStar Fund	-1.7	6.6	6.6	3.4	11.0	12.3	18.9
MSCI World Index	-1.4	14.4	14.4	8.9	12.2	12.7	16.9
Monthly Income Fund	-0.4	4.4	4.4	6.7	5.6	6.8	8.2
Multi-Index	-0.2	7.9	7.9	7.8	6.7	7.7	8.7
Canadian Asset Allocation Fund	0.2	7.3	7.3	8.4	6.0	7.6	8.5
Multi-Index	-0.2	7.9	7.9	7.8	6.7	7.7	8.7
Far East Fund	1.1	42.3	42.3	17.1	17.9	16.0	15.7
MSCI AC FE ex Jap (G)	-0.3	33.2	33.2	17.1	14.3	13.9	13.3

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
CI FUNDS							
Harbour Growth & Income Fund	0.5	5.6	5.6	7.9	5.5	6.4	8.0
Multi-Index	-0.2	7.9	7.9	7.8	6.7	7.7	8.7
Synergy American Fund	-2.2	14.4	14.4	9.0	12.2	14.1	19.5
S&P 500 Index (\$CAN)	-1.7	13.8	13.8	10.9	14.4	16.7	21.2
Signature Canadian Bond Fund	-0.5	2.1	2.1	2.2	2.8	4.4	3.5
SCM Universe Bond Index	-0.4	2.5	2.5	2.1	2.6	4.1	3.0
Signature High Income Fund	-0.2	4.7	4.7	6.4	4.5	5.9	6.8
Multi-Index	-0.2	7.9	7.9	7.8	6.7	7.7	8.7
American Value Fund	-1.9	12.3	12.3	9.6	11.6	14.6	19.9
S&P 500 Index (\$CAN)	-1.7	13.8	13.8	10.9	14.4	16.7	21.2
Synergy Global Corporate Class Fund	-1.3	15.0	15.0	7.6	11.5	12.1	17.3
MSCI World Index	-1.4	14.4	14.4	8.9	12.2	12.7	16.9
Global Small Companies Fund	-1.5	13.2	13.2	9.1	13.2	11.9	17.8
MSCI World Index	-1.4	14.4	14.4	8.9	12.2	12.7	16.9
Cambridge Canadian Asset Allocation Fund	-0.9	4.4	4.4	6.7	6.6	8.1	10.6
60% S&P/TSX, 40% Dex Universe Bond Total Return	0.6	6.5	6.5	9.7	5.1	6.3	6.4
Signature Diversified Yield II Fund	-0.1	6.2	6.2	6.6	5.5	6.8	8.0
40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index	-1.6	7.1	7.1	8.3	7.7	8.4	9.6