

Financial and Economic Notes

January 2024 vol. 186

Equity Markets

Canadian equities performed well in 2023, returning 11.8%, which was a surprising result to many investors. Most of those gains arrived late in the year on the back of a strong fourth quarter, which saw the S&P/TSX Composite return 8.1%. The main driver was consistent across all global risk asset classes: falling interest rate expectations. Ten of eleven sectors generated positive gains in the fourth quarter. The most impressive performance was generated by Technology (+24%), Financials (+13%) and Real Estate (+11%). This makes fundamental sense because if rates do indeed start falling, these sectors should greatly benefit. The only holdout across sectors was Energy (-1%). The North American crude oil price fell from \$85 to \$72 during the quarter as investors continued to debate the nearterm outlooks for the supply and demand of the important commodity.

US equities were top performers, surging 11.7% in the quarter and 26.3% for the year, both in USD. The rebound in the loonie pressured returns with US equities finishing the quarter up 8.9% in CAD. On a sectoral basis, the rally was driven by a growing risk appetite for sectors considered more exposed to a recession, including Financials (+14%) and Industrials (+13%). The significant drop-in interest rates also spurred a rally in growth stocks, primarily benefiting the Technology (17%) sector. Recession-resilient sectors were the main laggards, with Consumer Staples (+6%), Health Care (+6%), and Utilities (+9%) all underperforming. Energy (-7%) faced a challenging quarter following a steep correction in commodities.

International equities also performed admirably, returning 7.7% in the quarter and 15.1% for the year, both in CAD. On a sectoral basis, the rally was also driven by a growing risk appetite for sectors considered more exposed to a recession, including Materials (+14%) and Industrials (+13%). Just like it was the case in Canada and the US, the significant drop in interest rates also spurred a rally in growth stocks, primarily benefiting the Technology (18%) sector. Recession-resilient sectors and Energy were also the main laggards here.

Highlights

From greed to fear, to greed again! That can be one way to summarize the volatile equity markets of 2023.

Fixed Income Markets

The bond market ended the year with a bang as the dramatic rise in rates came to an abrupt halt driven by weakening economic data and indications from central bankers that policy rates had peaked. For the first time since the battle against inflation began in March 2022, the FOMC acknowledged that inflation had notably slowed down and that monetary policy easing was likely. The messaging by the Bank of Canada was more subtle, where they indicated during their December 6 meeting that they are not ready to declare victory over inflation, but also noted that “the economy is no longer in excess demand” and removed the reference to a tight labour market. The Bank of Canada acknowledged that economic growth had stalled with 2nd and 3rd quarter annualized growth contracting by -0.2% and -1.1%, respectively. The overall conclusion by the market was the same in Canada with the Bank of Canada considered to be on hold with a policy rate of 5%. Following the December central bank meetings, which was the first confirmation by central bankers that the fight against inflation was gaining ground and policy rates were sufficiently restrictive, the bond market reacted quickly, with buyers of bonds stepping in across the yield curve. The market quickly began to price in additional rate cuts and moved up the first rate cut to March 2024.

During the fourth quarter of 2023, bond yields declined dramatically, and the curve steepened slightly as the market moved toward the timing of rate cuts in 2024. Over the period, two-year Canada bond yields declined 98 basis points to 3.89%, while five-year yields declined by 107 basis points to 3.17%. The ten-year Canada yield decreased by 91 basis points to 3.11%, while thirty-year yields decreased by 78 basis points to 3.03% over the same period. Going forward, the Bank of Canada will need to see more sustained weakening in the core inflation rate which remains well above the 2% target at 3.4% (median core). In addition, a slowing in wage growth toward 3% is necessary for inflation to converge toward target as hourly wage growth in Canada is currently running at 5% (November) which is too high, particularly when considering the absence of any productivity gains.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of December 31, 2023

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	3.4	12.1	12.1	2.0	5.1	5.8	7.5
Multi-Index	3.4	12.3	12.3	0.2	3.9	5.2	7.1
Canadian Dividend Fund	4.6	18.2	18.2	9.3	15.2	11.7	13.7
S&P / TSX Index	3.9	11.8	11.8	2.6	9.6	8.6	11.3
U.S. Equity Fund (\$CAN)	1.5	24.7	24.7	9.1	13.8	14.5	16.8
S&P 500 Index (\$ CAN)	1.7	22.9	22.9	3.9	11.3	12.5	14.9
Money Market Fund	0.4	4.2	4.2	2.6	1.7	1.5	1.5
SCM 91 Day T-Bills	0.4	4.7	4.7	3.3	2.2	1.9	1.8
Fixed Income Fund	3.4	6.9	6.9	-2.1	-2.2	0.0	1.3
SCM Universe Bond Index	3.4	6.7	6.7	-2.9	-2.8	-0.5	1.3
Growth Portfolio	2.8	13.5	13.5	5.6	10.5	10.4	12.4
Multi-Index	3.1	14.5	14.5	2.9	8.8	8.7	11.1
Balanced Growth Portfolio	2.9	12.0	12.0	4.1	8.0	8.2	9.9
Multi-Index	3.1	12.6	12.6	1.8	6.3	6.8	8.9
Balanced Portfolio	2.8	10.5	10.5	2.1	5.3	5.9	7.3
Multi-Index	3.2	10.6	10.6	0.4	3.4	4.6	6.4
Conservative Portfolio	2.8	9.5	9.5	0.3	3.0	3.7	4.6
Multi-Index	3.2	8.6	8.6	-1.1	0.4	2.4	3.9
Canadian Small Capitalization Equity Fund	7.4	6.3	6.3	7.8	16.3	16.2	16.2
BMO NB Small Cap Weighted Index	3.8	4.8	4.8	-2.5	4.6	6.6	8.4
SmartSeries Income Fund	2.4	10.5	10.5	1.2	4.1	4.6	5.7
Multi-Index	3.1	9.6	9.6	-0.9	0.9	3.0	4.5
SmartSeries 2020 Fund	2.4	11.5	11.5	2.0	5.4	5.6	7.3
Multi-Index	3.0	10.6	10.6	-0.3	2.4	4.1	6.1
SmartSeries 2025 Fund	2.6	13.2	13.2	3.2	7.0	6.8	8.5
Multi-Index	2.9	12.2	12.2	0.6	4.0	5.4	7.4
SmartSeries 2030 Fund	2.6	13.8	13.8	3.6	7.6	7.3	9.2
Multi-Index	2.9	12.8	12.8	0.9	4.7	6.0	8.1
SmartSeries 2035 Fund	2.7	14.9	14.9	4.3	8.7	8.2	10.2
Multi-Index	2.8	13.8	13.8	1.4	5.9	6.9	9.1
SmartSeries 2040 Fund	2.8	16.0	16.0	5.1	9.7	8.9	11.1
Multi-Index	2.8	14.8	14.8	2.0	6.9	7.8	10.0
SmartSeries 2045 Fund	2.9	16.6	16.6	5.5	10.3	9.3	11.6
Multi-Index	2.7	15.4	15.4	2.2	7.5	8.2	10.5
SmartSeries 2050 Fund	2.9	17.2	17.2	5.9	10.9	9.7	12.0
Multi-Index	2.7	15.9	15.9	2.4	8.1	8.7	11.0
SmartSeries 2055 Fund	3.0	17.8	17.8	6.2	11.3	10.0	12.2
Multi-Index	2.7	16.4	16.4	2.7	8.5	9.0	11.3
Momentum Fund	-1.8	-3.3	-3.3	7.2	7.8	14.2	17.2
S&P / TSX Index	3.9	11.8	11.8	2.6	9.6	8.6	11.3
Preferred Share Fund	1.1	11.6	11.6	-4.5	7.1	6.5	5.0
S&P/TSX Preferred Share (TXPR) Index	0.8	5.9	5.9	-6.9	1.2	2.4	2.6

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
FIDELITY FUNDS							
Canadian Opportunities Fund	4.9	20.9	20.9	9.9	13.9	17.8	19.2
S&P / TSX Small and Mid Cap Combined Index	3.3	10.4	10.4	2.9	6.7	6.5	10.2
True North Fund	2.8	12.6	12.6	4.4	11.1	11.5	13.1
S&P / TSX Index	3.9	11.8	11.8	2.6	9.6	8.6	11.3
International Growth Fund	3.7	19.1	19.1	-0.8	4.4	7.2	11.2
Overseas Blend	2.8	14.4	14.4	-2.7	1.4	4.9	8.0
Europe Fund	1.8	16.8	16.8	2.0	5.4	4.0	6.6
MSCI Europe Index	2.1	16.7	16.7	3.1	7.0	6.1	8.3
American Disciplined Equity Fund	2.2	27.8	27.8	5.2	12.2	13.7	16.5
S&P 500 Index (\$CAN)	1.7	22.9	22.9	3.9	11.3	12.5	14.9
NorthStar Fund	3.4	17.1	17.1	5.9	7.3	11.0	10.3
MSCI AC World	1.9	18.9	18.9	2.0	7.0	8.7	10.9
Monthly Income Fund	2.8	7.8	7.8	2.1	5.6	6.2	7.7
Monthly Income Blend	3.2	11.4	11.4	-0.1	3.8	4.7	6.9
Canadian Asset Allocation Fund	3.5	12.7	12.7	3.1	8.0	8.5	10.1
Can Asset Alloc Blend	3.8	10.3	10.3	1.0	5.8	6.1	8.2
Far East Fund	0.0	10.1	10.1	-9.5	-10.2	-1.9	2.2
MSCI AC FE ex Jap (G)	-0.3	0.6	0.6	-7.8	-8.2	-1.0	1.8
Emerging Market Fund	0.9	8.1	8.1	-3.4	-2.9	4.4	8.1
MSCI Emerging Markets (G)	1.1	7.3	7.3	-3.9	-3.6	1.1	3.3
NorthStar Balanced Fund	2.6	11.2	11.2	3.3	4.4	6.8	7.1
Northstar Balanced Blend	1.9	11.3	11.3	0.3	2.7	4.6	6.0
CI FUNDS							
Signature Corporate Bond Fund	2.4	9.9	9.9	0.1	1.6	3.0	4.5
Multi-Index	3.3	9.6	9.6	-0.8	0.1	1.7	3.3
Signature Canadian Bond Fund	3.8	7.7	7.7	-1.9	-1.8	1.2	2.4
SCM Universe Bond Index	3.4	6.7	6.7	-2.9	-2.8	0.0	1.3
Signature High Income Fund	3.4	8.8	8.8	1.2	7.2	6.1	8.5
Multi-Index	3.7	10.4	10.4	2.6	5.7	4.5	6.5
American Value Fund	1.1	27.1	27.1	2.9	12.5	11.7	14.5
S&P 500 Index (\$CAN)	2.1	23.6	23.6	4.1	11.5	12.6	15.0
Cambridge Canadian Dividend Fund	2.7	12.4	12.4	3.4	12.6	9.5	11.3
S&P/TSX Composite Total Return Index	3.9	11.8	11.8	2.6	9.6	8.6	11.3
Cambridge Canadian Asset Allocation Corp Fund	4.3	12.7	12.7	-1.0	3.3	3.7	5.8
60% S&P/TSX, 40% Dex Universe Bond Total Return	3.7	9.8	9.8	0.5	4.6	5.3	7.5
Signature Global Resource Corp Class Fund	0.0	-1.1	-1.1	12.5	19.2	15.5	14.4
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	-0.7	2.8	2.8	9.5	14.6	9.8	12.4
Signature Global Dividend Fund	1.1	9.1	9.1	4.7	10.7	9.4	11.2
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	1.9	7.0	7.0	2.9	6.4	4.7	7.2