

# Financial and Economic Notes

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## Equity Markets

Canadian equities, like all major equity asset classes, were very weak during the last quarter of 2018. The S&P/TSX Composite was down 10.1% for the quarter, which brings the annual performance to a disappointing -8.9%. This was the worst calendar year since 2008 but we did experience similar setbacks in 2011 and 2015. For the quarter, investors were looking for places to hide as only 3 of 11 sectors posted gains. Consumer Staples (+6%), Communications (+2%) and Materials (+1%) were all seen as safe havens. Cannabis momentum finally stalled, resulting in Health Care (-35%) being the weakest sector. However, more important sectors by size did most of the damage with Energy (-17%), Industrials (-12%) and Financials (-12%) all experiencing a very difficult quarter.

The S&P 500 index tumbled 13.5% (total return, in USD terms), leading to a negative full year return of -4.4%. The loonie weakened in the quarter, providing some cushion to Canadian investors, with a Q4 CAD return of -8.6% and full year positive return of 4.2%.

International equities were not spared with the MSCI EAFE down 7.58% in Canadian dollars, finishing the year down 6.03%. Increasing concerns about trade tensions, political uncertainty, tightening monetary policies and the ultimate impact it could have on global economic growth, caused a very visible rotation to more defensive sectors with Utilities (+6%), Real Estate (0%), Consumer Staples (-3%), Communication Services (-5%) and Healthcare (-5%) all outperforming the market. On the contrary, the cyclical sectors like Energy (-13%), Information Technology (-12%), Materials (-10%), Consumer Discretionary (-10%) and Industrials (-10%) were all down double digit.

## Highlights

This last quarter was simply an awful period for equity investors. The weakness was pronounced and spread across all equity asset classes.

## Fixed Income Markets

The final quarter of 2018 capped the year on a downbeat note as market volatility increased, driven by growing concerns of slowing global growth amid rising interest rates and hawkish central bankers. Weakening economic data, particularly in China, was one of the primary catalysts for the sharp equity/commodity sell off in December, while other contributing headlines included a US Government shutdown and dysfunctional Government, global trade tensions and weakening consumer spending due to higher interest rates. In North America, yield curves continued to flatten as central bankers on both sides of the border continued to hike rates. The flattening and inversion due to declining longer bond yields further contributed to negative risk sentiment as the inverted yield curve, as an indicator of a recession, permeated the market. Contributing to the flattening of the yield curve during the quarter was the hawkish rhetoric of key central bankers as they proceed on the path toward policy normalization.

Fundamentally, Canadian economic data released during the quarter has been strong and the economy continued to perform well, generating above trend growth of 2.1% in 2018. On the downside, growth in Canada should moderate to 1.7% in 2019 due to low oil prices, higher interest rates, trade tariffs and the overall slowing in global demand growth. The impact of higher short-term interest rates on consumer spending and housing remains a concern and may contribute to a slower pace in rate hikes by the Bank of Canada in 2019. During the quarter, the unemployment rate improved to 5.6% while inflation remained subdued at 1.7% year-over-year which could give the Bank of Canada added room to slow the pace of any further rate hikes.

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## Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of December 31, 2018

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
<b>ASSUMPTION / LOUISBOURG FUNDS</b>							
<b>Balanced Fund - RPP</b>	<b>-2.5</b>	<b>-3.5</b>	<b>-3.5</b>	<b>1.9</b>	<b>4.0</b>	<b>4.0</b>	<b>5.0</b>
Multi-Index	-2.6	-2.1	-2.1	2.8	4.4	4.4	5.7
<b>Canadian Dividend Fund</b>	<b>-3.7</b>	<b>-11.6</b>	<b>-11.6</b>	<b>-1.8</b>	<b>6.7</b>	<b>3.1</b>	<b>2.8</b>
S&P / TSX Index	-5.4	-8.9	-8.9	-0.3	6.4	2.5	4.1
<b>U.S. Equity Fund (\$CAN)</b>	<b>-7.4</b>	<b>-1.6</b>	<b>-1.6</b>	<b>4.2</b>	<b>5.8</b>	<b>7.0</b>	<b>10.1</b>
S&P 500 Index (\$ CAN)	-6.5	4.2	4.2	8.9	8.6	11.7	14.1
<b>Money Market Fund</b>	<b>0.1</b>	<b>1.4</b>	<b>1.4</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>
SCM 91 Day T-Bills	0.2	1.4	1.4	1.0	0.8	0.8	0.8
<b>Fixed Income Fund</b>	<b>1.0</b>	<b>1.2</b>	<b>1.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>3.7</b>
SCM Universe Bond Index	1.4	1.4	1.4	2.0	1.9	2.3	3.5
<b>Growth Portfolio</b>	<b>-4.0</b>	<b>-6.9</b>	<b>-6.9</b>	<b>1.5</b>	<b>5.4</b>	<b>5.1</b>	<b>5.9</b>
Multi-Index	-4.8	-5.5	-5.5	2.5	5.9	5.0	6.2
<b>Balanced Growth Portfolio</b>	<b>-3.2</b>	<b>-5.4</b>	<b>-5.4</b>	<b>1.6</b>	<b>4.4</b>	<b>4.3</b>	<b>5.2</b>
Multi-Index	-3.5	-4.0	-4.0	2.4	5.0	4.3	5.5
<b>Balanced Portfolio</b>	<b>-2.1</b>	<b>-3.7</b>	<b>-3.7</b>	<b>1.6</b>	<b>3.7</b>	<b>3.8</b>	<b>4.8</b>
Multi-Index	-1.9	-2.2	-2.2	2.2	3.9	3.7	4.9
<b>Conservative Portfolio</b>	<b>-1.1</b>	<b>-2.6</b>	<b>-2.6</b>	<b>1.4</b>	<b>2.9</b>	<b>3.1</b>	<b>4.0</b>
Multi-Index	-0.3	-0.4	-0.4	2.1	2.9	2.9	4.1
<b>Canadian Small Capitalization Equity Fund</b>	<b>-1.0</b>	<b>-22.8</b>	<b>-22.8</b>	<b>-12.1</b>	<b>3.3</b>	<b>0.7</b>	<b>0.5</b>
BMO NB Small Cap Weighted Index	-3.5	-18.2	-18.2	-8.3	5.2	0.2	-0.3
<b>Momentum Fund</b>	<b>-10.9</b>	<b>-11.8</b>	<b>-11.8</b>	<b>-3.6</b>	<b>9.4</b>	<b>5.9</b>	<b>4.8</b>
S&P / TSX Index	-5.4	-8.9	-8.9	-0.3	6.4	2.5	4.1
<b>Preferred Share Fund</b>	<b>-3.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
S&P/TSX Preferred Share (TXPR) Index	-1.6	n/a	n/a	n/a	n/a	n/a	n/a
<b>FIDELITY FUNDS</b>							
<b>Canadian Opportunities Fund</b>	<b>-2.4</b>	<b>1.3</b>	<b>1.3</b>	<b>3.3</b>	<b>10.8</b>	<b>6.1</b>	<b>7.2</b>
S&P / TSX Small and Mid Cap Combined Index	-4.9	-12.9	-12.9	-3.4	4.0	0.3	1.4
<b>True North Fund</b>	<b>-3.8</b>	<b>-2.9</b>	<b>-2.9</b>	<b>2.1</b>	<b>5.4</b>	<b>4.1</b>	<b>6.4</b>
S&P / TSX Index	-5.4	-8.9	-8.9	-0.3	6.4	2.5	4.1
<b>International Growth Fund</b>	<b>-2.4</b>	<b>-3.4</b>	<b>-3.4</b>	<b>8.9</b>	<b>3.9</b>	<b>8.9</b>	<b>8.6</b>
MSCI EAFE Index	-2.2	-6.0	-6.0	4.8	2.3	6.2	5.7
<b>Europe Fund</b>	<b>-2.7</b>	<b>-6.5</b>	<b>-6.5</b>	<b>5.4</b>	<b>0.4</b>	<b>5.4</b>	<b>4.0</b>
MSCI Europe Index	-2.0	-7.2	-7.2	4.3	1.5	5.1	4.5
<b>American Disciplined Equity Fund</b>	<b>-6.9</b>	<b>0.1</b>	<b>0.1</b>	<b>6.9</b>	<b>5.3</b>	<b>8.9</b>	<b>11.9</b>
S&P 500 Index (\$CAN)	-6.5	4.2	4.2	8.9	8.6	11.7	14.1
<b>NorthStar Fund</b>	<b>-1.4</b>	<b>-2.9</b>	<b>-2.9</b>	<b>1.7</b>	<b>1.3</b>	<b>7.3</b>	<b>9.1</b>
MSCI World Index	-5.1	-0.5	-0.5	6.7	5.7	8.9	9.9
<b>Monthly Income Fund</b>	<b>-1.3</b>	<b>-0.3</b>	<b>-0.3</b>	<b>2.0</b>	<b>4.3</b>	<b>4.1</b>	<b>5.3</b>
Multi-Index	-2.6	-2.1	-2.1	2.8	4.4	4.4	5.7
<b>Canadian Asset Allocation Fund</b>	<b>-1.9</b>	<b>-1.8</b>	<b>-1.8</b>	<b>2.6</b>	<b>4.9</b>	<b>4.0</b>	<b>5.6</b>
Multi-Index	-2.6	-2.1	-2.1	2.8	4.4	4.4	5.7

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
<b>FIDELITY FUNDS</b>							
<b>Far East Fund</b>	<b>0.6</b>	<b>-7.0</b>	<b>-7.0</b>	<b>15.0</b>	<b>8.4</b>	<b>11.1</b>	<b>11.0</b>
MSCI AC FE ex Jap (G)	-0.3	-7.2	-7.2	11.2	8.3	8.5	9.3
<b>Emerging Market Fund</b>	<b>-0.5</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
MSCI Emerging Markets (G)	0.1	n/a	n/a	n/a	n/a	n/a	n/a
<b>NorthStar Balanced Fund</b>	<b>1.1</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Northstar Balanced Blend	0.1	n/a	n/a	n/a	n/a	n/a	n/a
<b>CI FUNDS</b>							
<b>Signature Corporate Bond Fund</b>	<b>-0.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-0.6	n/a	n/a	n/a	n/a	n/a	n/a
<b>Signature Canadian Bond Fund</b>	<b>1.4</b>	<b>1.6</b>	<b>1.6</b>	<b>1.9</b>	<b>2.0</b>	<b>2.5</b>	<b>3.8</b>
SCM Universe Bond Index	1.4	1.4	1.4	2.0	1.9	2.3	3.5
<b>Harbour Growth &amp; Income Fund</b>	<b>-2.8</b>	<b>-12.0</b>	<b>-12.0</b>	<b>-3.6</b>	<b>0.9</b>	<b>0.8</b>	<b>2.4</b>
Multi-Index	-2.6	-2.1	-2.1	2.8	4.4	4.4	5.7
<b>Signature High Income Fund</b>	<b>-3.3</b>	<b>-2.3</b>	<b>-2.3</b>	<b>1.1</b>	<b>3.5</b>	<b>2.8</b>	<b>4.2</b>
Multi-Index	-2.6	-2.1	-2.1	2.8	4.4	4.4	5.7
<b>American Value Fund</b>	<b>-6.6</b>	<b>-0.4</b>	<b>-0.4</b>	<b>5.7</b>	<b>6.2</b>	<b>8.4</b>	<b>11.4</b>
S&P 500 Index (\$CAN)	-6.5	4.2	4.2	8.9	8.6	11.7	14.1
<b>Cambridge Canadian Dividend Fund</b>	<b>-4.6</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
S&P/TSX Composite Total Return Index	-5.4	n/a	n/a	n/a	n/a	n/a	n/a
<b>Global Small Companies Fund</b>	<b>-7.4</b>	<b>-12.0</b>	<b>-12.0</b>	<b>-0.2</b>	<b>-1.6</b>	<b>6.3</b>	<b>6.7</b>
MSCI World Index	-5.1	-0.5	-0.5	6.7	5.7	8.9	9.9
<b>Cambridge Canadian Asset Allocation Corp Fund</b>	<b>-3.0</b>	<b>-2.3</b>	<b>-2.3</b>	<b>1.1</b>	<b>3.7</b>	<b>4.4</b>	<b>6.1</b>
60% S&P/TSX, 40% Dex Universe Bond Total Return	-2.7	-4.8	-4.8	0.7	4.6	2.5	4.0
<b>Signature Global Resource Corp Class Fund</b>	<b>-5.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	-0.5	n/a	n/a	n/a	n/a	n/a	n/a
<b>Signature Global Dividend Fund</b>	<b>-5.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	-3.4	n/a	n/a	n/a	n/a	n/a	n/a