

Financial and Economic Notes

July 2023 vol. 184

Equity Markets

Canadian equities participated in the equity strength to kick off 2023. The S&P/TSX Composite returned +4.6% despite the important Energy sector generating a negative return for the quarter with oil price dipping in late March. It was the exception as the strength of the Index was quite broad-based, with the other ten sectors offering positive returns. Technology (+26%) performed the best as long-term interest rate fading provided a valuation boost for these businesses. Materials, Consumer Staples, Utilities, Industrials and Real Estate all generated returns of 6% to 8% for period.

Despite what has been a very eventful quarter, global equities' year-end momentum extended during the first quarter with solid returns across geographies. That being said, volatility re-accelerated in March as we saw some cracks in the US financial systems. Overall, US equities had a strong rebound, up 7.4% in Canadian dollars. On a sectoral basis, there was a clear reversion to what we observed last quarter, with the "growth" oriented sectors back in favor as interest rates look less likely to move higher.

International equities had another strong quarter, up 8.0% in Canadian dollars, slightly outperforming their North American peers. Currency movements had a negligible impact on performance. On a sectoral basis, the IT sector (+20%) was the clear winner after a more difficult 2022, helped by the pullback in interest rates. More defensive sectors like Communication Services (+10%), Utilities (+8%), and Cons. Staples (+7%) also benefited from the rotation. Unsurprisingly, given the recent chain of events, Real Estate (-2%), and Financials (+2%) were two of the worst-performing sectors. Energy (+1%) also lagged as concerns around an economic slowdown weighed on the commodity.

Highlights

Equities were off to the races to begin the year. The enthusiasm that began last quarter continued in January as investors anticipated a pause in the central bank hiking cycle.

Fixed Income Markets

The first quarter of 2023 has been atypical of the asset class since it can be best described as "highly volatile". The volatility in the bond market this quarter was virtually at unprecedented levels and comparable in scale to the VIX (options on S&P 500 expected stock market volatility), as two-year Canada bond yields traded in a 91-basis point range during the last 3 weeks of the quarter. Several conflicting forces contributed to bond market volatility as weakening economic data in January was offset by resurging employment and inflation data, leading to a strong start in January which was then virtually erased in February with a return to higher yields. Despite the stronger than expected data in February, markets began to focus on the view that the rate hike cycle was nearly complete, with central banks in Canada and the US focusing on holding policy rates at restrictive levels until inflation returns to the 2% target range. This outlook was abruptly interrupted by the onset of rising instability in the global banking sector due to rising concerns of bank solvency and liquidity challenges.

During the quarter, there was a notable divergence in risk sentiment between the equity and bond markets as equity market indices were generally higher at times during the quarter when the bond market moved lower in yield as it began to price in rate cuts due to a weaker economic outlook. This divergence in the outlook can largely be explained by the strength in personal consumption and tight demand conditions which is contributing to earnings estimates and supporting equity valuations. In contrast, bond markets are increasingly focused on the impact of a rapid tightening cycle where policy rates remain at restrictive levels for longer and growth slows as a result.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of June 30, 2023

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	1.5	6.3	11.8	1.6	6.4	5.5	5.2
Multi-Index	2.1	6.4	10.8	0.1	4.9	4.8	5.0
Canadian Dividend Fund	3.8	8.3	15.6	9.1	17.1	11.0	9.0
S&P / TSX Index	3.4	5.7	10.4	3.0	12.4	8.6	7.6
U.S. Equity Fund (\$CAN)	1.8	12.3	21.6	9.1	15.2	13.9	13.3
S&P 500 Index (\$ CAN)	3.8	14.2	22.7	6.9	13.5	13.1	12.4
Money Market Fund	0.3	1.8	2.7	1.4	1.0	1.1	1.2
SCM 91 Day T-Bills	0.3	2.1	3.7	2.0	1.4	1.5	1.5
Fixed Income Fund	0.1	2.7	3.4	-3.6	-3.2	-0.8	0.6
SCM Universe Bond Index	0.0	2.5	3.1	-4.4	-3.7	-1.0	0.7
Growth Portfolio	2.5	6.6	14.5	5.4	13.3	10.6	8.8
Multi-Index	3.1	8.0	14.8	3.6	11.4	8.8	7.9
Balanced Growth Portfolio	2.0	5.8	11.6	3.5	10.0	8.2	7.0
Multi-Index	2.4	6.7	12.1	2.0	8.1	6.7	6.3
Balanced Portfolio	1.5	4.7	8.2	1.2	6.6	5.6	5.0
Multi-Index	1.6	5.3	9.1	0.0	4.2	4.2	4.5
Conservative Portfolio	1.1	3.7	4.5	-0.8	3.8	3.0	2.7
Multi-Index	0.8	3.9	6.1	-2.1	0.3	1.7	2.6
Canadian Small Capitalization Equity Fund	1.4	-1.9	15.0	5.5	23.8	15.7	9.3
BMO NB Small Cap Weighted Index	0.6	-0.3	5.3	-4.7	12.7	6.5	3.4
SmartSeries Income Fund	1.0	4.4	5.9	-0.1	5.1	4.0	n/a
Multi-Index	1.0	4.6	7.2	-1.7	1.0	2.4	n/a
SmartSeries 2020 Fund	1.2	5.1	7.7	1.0	6.7	5.2	n/a
Multi-Index	1.3	5.3	8.6	-0.7	3.2	3.8	n/a
SmartSeries 2025 Fund	1.5	6.3	10.4	2.4	8.3	6.4	n/a
Multi-Index	1.8	6.4	10.8	0.5	5.1	5.2	n/a
SmartSeries 2030 Fund	1.6	6.6	11.3	2.9	9.2	7.0	n/a
Multi-Index	2.0	6.8	11.5	1.0	6.1	5.8	n/a
SmartSeries 2035 Fund	1.8	7.4	13.1	3.9	10.4	7.9	n/a
Multi-Index	2.3	7.5	12.9	1.7	7.6	6.9	n/a
SmartSeries 2040 Fund	2.0	8.0	14.8	4.7	11.5	8.7	n/a
Multi-Index	2.6	8.3	14.3	2.5	9.0	7.8	n/a
SmartSeries 2045 Fund	2.2	8.4	15.8	5.3	12.2	9.2	n/a
Multi-Index	2.8	8.6	15.0	2.9	9.8	8.3	n/a
SmartSeries 2050 Fund	2.3	8.9	16.8	5.7	12.8	9.5	n/a
Multi-Index	3.0	9.0	15.7	3.2	10.5	8.8	n/a
SmartSeries 2055 Fund	2.3	9.2	17.6	6.1	13.3	9.8	n/a
Multi-Index	3.1	9.3	16.4	3.6	11.0	9.2	n/a
Momentum Fund	2.5	0.3	7.8	3.5	12.9	18.8	12.4
S&P / TSX Index	3.4	5.7	10.4	3.0	12.4	8.6	7.6
Preferred Share Fund	2.2	2.4	-7.9	-6.0	12.7	5.1	n/a
S&P/TSX Preferred Share (TXPR) Index	1.3	0.2	-9.0	-7.4	5.4	2.1	n/a

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Gross returns as of June 30, 2023

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
FIDELITY FUNDS							
Canadian Opportunities Fund	4.3	12.1	27.0	8.9	19.8	18.1	16.9
S&P / TSX Small and Mid Cap Combined Index	2.4	5.6	13.5	1.6	11.7	7.3	6.0
True North Fund	3.3	6.1	13.1	5.5	13.8	11.5	10.3
S&P / TSX Index	3.4	5.7	10.4	3.0	12.4	8.6	7.6
International Growth Fund	1.3	12.7	25.4	0.4	6.8	8.4	8.3
Overseas Blend	0.8	11.5	23.3	-1.0	5.3	6.1	5.6
Europe Fund	2.2	10.8	20.8	2.3	7.2	3.9	3.3
MSCI Europe Index	2.0	10.9	25.0	3.6	9.6	6.4	5.3
American Disciplined Equity Fund	4.1	17.0	26.7	7.1	13.9	14.0	12.8
S&P 500 Index (\$CAN)	3.8	14.2	22.7	6.9	13.5	13.1	12.4
NorthStar Fund	2.2	8.6	20.1	2.3	11.0	10.7	7.7
MSCI AC World	3.0	11.3	19.5	2.4	9.9	9.0	8.2
Monthly Income Fund	1.1	2.7	6.3	1.8	6.9	5.9	6.3
Monthly Income Blend	1.8	5.8	7.4	-0.5	5.0	4.4	5.1
Canadian Asset Allocation Fund	2.3	6.5	12.2	3.5	9.6	8.2	7.8
Can Asset Alloc Blend	2.4	4.8	8.3	0.9	7.2	5.7	5.6
Far East Fund	1.4	4.5	1.5	-18.9	-5.3	-1.4	-0.8
MSCI AC FE ex Jap (G)	-0.3	0.4	-0.8	-13.4	-1.9	0.6	0.1
Emerging Market Fund	3.1	3.8	9.9	-8.8	4.3	5.2	5.4
MSCI Emerging Markets (G)	1.1	2.6	4.9	-9.5	1.7	1.6	1.4
NorthStar Balanced Fund	0.2	5.0	13.7	1.6	5.8	6.7	5.8
Northstar Balanced Blend	0.2	5.6	10.8	0.1	2.7	4.4	4.9
CI FUNDS							
Signature Corporate Bond Fund	0.5	3.6	5.5	-2.1	2.5	2.2	3.1
Multi-Index	0.6	3.5	5.4	-3.1	0.5	0.9	2.3
Signature Canadian Bond Fund	0.2	2.9	4.0	-3.6	-2.5	0.2	1.7
SCM Universe Bond Index	0.0	2.5	3.1	-4.4	-3.7	-1.0	0.7
Signature High Income Fund	1.7	2.2	5.1	1.8	9.0	5.7	6.4
Multi-Index	1.5	2.2	3.6	-0.2	6.4	3.5	4.6
American Value Fund	1.9	14.8	22.1	4.7	14.9	11.2	10.8
S&P 500 Index (\$CAN)	4.0	14.4	23.1	6.9	13.7	13.1	12.5
Cambridge Canadian Dividend Fund	3.8	6.7	9.1	4.7	16.9	9.5	9.5
S&P/TSX Composite Total Return Index	3.4	5.7	10.4	3.0	12.4	8.6	7.6
Cambridge Canadian Asset Allocation Corp Fund	2.1	7.0	8.1	-1.6	4.1	3.5	4.1
60% S&P/TSX, 40% Dex Universe Bond Total Return	2.0	4.5	7.6	0.2	5.9	4.9	5.0
Signature Global Resource Corp Class Fund	4.9	-4.3	11.9	16.4	27.1	15.5	6.5
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	2.3	-0.7	6.9	11.3	15.6	11.1	7.6
Signature Global Dividend Fund	2.7	3.3	15.0	7.5	14.9	9.3	8.6
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	2.1	1.5	10.4	3.1	8.1	5.4	6.0