

Financial and Economic Notes

October 2023 vol. 185

Equity Markets

Canadian equity quarterly gains evaporated by mid-September. Canadian equities did benefit from a booming oil price, which moved \$20 higher in three months to close out the quarter above \$90 a barrel. This helped the important Energy sector generate a healthy 10% return for the period. Unfortunately, the only other positive return was generated by the immaterial Health Care sector. This wasn't enough to bring the S&P/TSX Composite in positive territory (-2.2%) as all other nine sectors were in the red for the period. Interest sensitive sectors stood out negatively as interest rates moved higher. Communications (-13%) and Utilities (-12%) were the worse performers. Cyclically sensitive sectors such as Technology (-8%) and Consumer Discretionary (-7%) also trailed.

US equities also posted a negative return in the third quarter. Overall, US equities closed the quarter down -3.3% in USD. Currency movements had a positive impact on performance with US equities down -1.2% in Canadian dollar. On a sectoral basis, the impact of higher interest rates was most notable for Utilities (-9%), Real Estate (-9%), Consumer Staples (-6%) and Technology (-6%), which all underperformed the benchmark. In contrast, Energy (+12%) emerged as the standout winner, benefiting from a significant upswing in commodity prices.

International equities closed the quarter down -2.0% in CAD, similar to their North American counterparts. Currency movements had a slight negative impact on performance, due to the strength of the Canadian dollar compared to other major benchmark currencies. On a sectoral basis, the impact of the higher interest rates was most notable for Technology (-9%) and Utilities (-7%), both of which underperformed the benchmark. In contrast, Energy (+14%) emerged as the standout winner, benefiting from a significant upswing in commodity prices. Financials (+3%) also performed well with Japanese banks leading the way as investors grew more optimistic about the Bank of Japan potentially abandoning its yield curve control policy.

Highlights

Investors have transitioned from cheering to fearing a resilient economy.

Fixed Income Markets

Central banks were relatively quiet this quarter, echoing messages of "higher for longer" and "staying the course." Financial markets, on the other hand, were not as subdued as 10-year bond yields moved 75 basis points higher and equity markets saw a retracement of 6% to 9% in value. The quarter proved to be a reality check for the bond market where the "higher for longer" rhetoric was finally heard as the economy has proven to be resilient to the rapid rise in interest rates. A number of other catalysts also contributed to the strength of a bond sell-off this quarter, including a downgrade by Fitch to the US credit rating, citing "expected fiscal deterioration over the next three years", the 50 basis point increase in the 10-year yield under yield curve control by the Bank of Japan, and the newly announced increase to US Treasury bond issuance due to larger fiscal deficits where the additional supply will increase the monthly ten and thirty-year Treasury auction sizes by 17% to 28%.

On Sept 6, 2023, the Bank of Canada held their overnight lending rate steady at 5%. Headline inflation in advanced economies has been declining. However, the core component of inflation remains high. Global growth slowed in Q2/Q3 2023 largely due to the economic slowdown in China and reduced manufacturing activity. In contrast, US GDP growth continues to surprise to the upside, led by the consumer. Canada has entered a period of weaker economic growth, where Q2 GDP contracted by 0.2%, reflecting weaker consumption, a decline in housing activity, and the devastating wildfires and weather events across regions in Canada. This recent weakening in economic growth should help alleviate pricing pressures in some segments. The headline CPI rate in Canada is currently 4% y/y, with Core CPI at 4.1% y/y. The labour market remains strong with 100k of new jobs created in August and September. The upward trend in employment continues to be supported by the highest rate of population growth since 1957, this time, largely due to immigration. Despite this, the labour market remains tight with wage growth of 4% to 5% and a low unemployment rate of 5.5%.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of September 30, 2023

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	-3.4	2.9	8.3	-0.4	4.2	4.3	4.6
Multi-Index	-3.6	3.2	7.6	-1.7	2.8	3.6	4.3
Canadian Dividend Fund	-3.1	8.1	17.0	8.6	15.1	10.5	9.5
S&P / TSX Index	-3.3	3.4	9.5	1.8	9.9	7.3	7.3
U.S. Equity Fund (\$CAN)	-4.8	11.3	20.1	7.5	12.3	12.4	11.8
S&P 500 Index (\$ CAN)	-4.8	12.8	19.7	4.7	10.6	12.0	10.9
Money Market Fund	0.4	3.0	3.5	2.0	1.4	1.3	1.4
SCM 91 Day T-Bills	0.4	3.4	4.4	2.6	1.8	1.7	1.7
Fixed Income Fund	-2.6	-1.2	-0.9	-5.3	-4.5	-2.0	0.0
SCM Universe Bond Index	-2.6	-1.5	-1.4	-6.0	-5.1	-2.2	0.1
Growth Portfolio	-3.4	5.2	14.0	4.6	10.7	9.7	8.7
Multi-Index	-3.6	6.0	14.0	2.1	9.1	7.7	7.3
Balanced Growth Portfolio	-3.1	3.9	10.6	2.6	7.7	7.3	6.8
Multi-Index	-3.3	4.4	10.5	0.5	6.0	5.6	5.8
Balanced Portfolio	-2.5	2.6	6.9	0.1	4.6	4.8	4.7
Multi-Index	-3.0	2.5	6.6	-1.5	2.4	3.1	4.0
Conservative Portfolio	-1.7	1.7	3.4	-2.1	2.0	2.3	2.4
Multi-Index	-2.7	0.7	2.7	-3.6	-1.3	0.6	2.1
Canadian Small Capitalization Equity Fund	-4.3	-1.5	13.5	5.3	18.5	15.1	11.4
BMO NB Small Cap Weighted Index	-5.2	-1.1	7.2	-3.9	10.0	6.6	3.8
SmartSeries Income Fund	-1.7	3.2	5.8	-1.1	3.4	3.5	n/a
Multi-Index	-2.9	1.5	3.8	-3.2	-0.7	1.3	n/a
SmartSeries 2020 Fund	-1.9	3.9	7.6	0.0	4.9	4.5	n/a
Multi-Index	-3.0	2.4	5.5	-2.3	1.3	2.7	n/a
SmartSeries 2025 Fund	-2.4	5.1	10.4	1.4	6.4	5.8	n/a
Multi-Index	-3.2	3.8	8.2	-1.0	3.1	4.1	n/a
SmartSeries 2030 Fund	-2.6	5.5	11.3	1.9	7.2	6.3	n/a
Multi-Index	-3.3	4.4	9.1	-0.6	4.0	4.8	n/a
SmartSeries 2035 Fund	-2.9	6.2	13.1	2.8	8.3	7.2	n/a
Multi-Index	-3.4	5.2	10.7	0.1	5.4	5.8	n/a
SmartSeries 2040 Fund	-3.2	6.9	14.9	3.7	9.4	7.9	n/a
Multi-Index	-3.6	6.2	12.5	0.9	6.7	6.7	n/a
SmartSeries 2045 Fund	-3.4	7.4	15.9	4.2	10.0	8.4	n/a
Multi-Index	-3.6	6.7	13.4	1.3	7.4	7.3	n/a
SmartSeries 2050 Fund	-3.5	7.7	16.8	4.7	10.6	8.7	n/a
Multi-Index	-3.7	7.1	14.2	1.6	8.1	7.8	n/a
SmartSeries 2055 Fund	-3.7	8.1	17.7	5.0	11.0	9.0	n/a
Multi-Index	-3.8	7.5	15.1	2.0	8.6	8.2	n/a
Momentum Fund	-5.3	-4.5	3.4	4.7	9.9	16.0	11.8
S&P / TSX Index	-3.3	3.4	9.5	1.8	9.9	7.3	7.3
Preferred Share Fund	1.9	2.0	-1.9	-7.8	8.0	5.5	n/a
S&P/TSX Preferred Share (TXPR) Index	1.4	-1.3	-4.5	-9.3	1.2	1.6	n/a

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Gross returns as of September 30, 2023

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
FIDELITY FUNDS							
Canadian Opportunities Fund	-3.7	10.4	19.8	6.8	15.1	16.4	16.3
S&P / TSX Small and Mid Cap Combined Index	-3.9	4.8	12.9	1.2	9.3	6.6	5.9
True North Fund	-2.0	5.0	11.6	3.9	11.8	10.1	10.2
S&P / TSX Index	-3.3	3.4	9.5	1.8	9.9	7.3	7.3
International Growth Fund	-5.2	6.3	20.1	-3.8	2.3	6.4	7.0
Overseas Blend	-6.1	4.1	18.1	-5.5	0.8	4.0	4.2
Europe Fund	-3.0	10.1	28.1	1.2	6.6	4.7	3.4
MSCI Europe Index	-4.0	7.7	26.8	1.7	7.7	5.7	4.9
American Disciplined Equity Fund	-4.4	17.0	23.6	5.8	11.4	13.3	11.9
S&P 500 Index (\$CAN)	-4.8	12.8	19.7	4.7	10.6	12.0	10.9
NorthStar Fund	-2.8	8.9	19.5	2.3	9.0	10.9	8.1
MSCI AC World	-4.2	9.8	18.9	1.1	7.3	8.3	7.4
Monthly Income Fund	-2.5	0.5	5.3	0.3	5.7	4.8	5.9
Monthly Income Blend	-3.0	3.3	6.4	-1.9	3.0	3.2	4.5
Canadian Asset Allocation Fund	-2.7	3.9	8.4	1.9	7.3	6.7	7.5
Can Asset Alloc Blend	-3.1	2.0	6.3	-0.5	5.1	4.5	5.1
Far East Fund	-2.5	4.3	16.7	-15.4	-8.2	-1.6	0.2
MSCI AC FE ex Jap (G)	-3.6	-2.0	9.6	-9.8	-5.3	0.8	0.3
Emerging Market Fund	-2.9	1.5	13.2	-6.5	1.1	4.9	6.0
MSCI Emerging Markets (G)	-2.6	1.9	10.4	-7.0	-0.9	2.1	1.8
NorthStar Balanced Fund	-2.4	4.9	10.1	0.7	4.5	6.2	6.0
Northstar Balanced Blend	-2.8	4.7	8.6	-1.1	1.6	3.6	4.6
CI FUNDS							
Signature Corporate Bond Fund	-1.1	3.9	5.3	-2.4	1.3	1.9	3.0
Multi-Index	-1.6	2.1	4.0	-3.8	-1.0	0.3	2.0
Signature Canadian Bond Fund	-2.7	-1.0	-0.7	-5.4	-4.1	-1.1	1.0
SCM Universe Bond Index	-2.6	-1.5	-1.4	-6.0	-5.1	-2.2	0.1
Signature High Income Fund	-2.5	1.2	4.0	0.2	7.3	4.8	5.9
Multi-Index	-3.3	-0.5	4.0	-2.1	4.4	2.0	4.0
American Value Fund	-3.9	15.6	19.3	4.3	13.2	10.9	9.9
S&P 500 Index (\$CAN)	-4.3	13.4	19.6	5.0	10.9	12.1	11.0
Cambridge Canadian Dividend Fund	-2.0	5.4	11.3	4.2	14.2	9.1	8.6
S&P/TSX Composite Total Return Index	-3.3	3.4	9.5	1.8	9.9	7.3	7.3
Cambridge Canadian Asset Allocation Corp Fund	-3.3	3.4	7.6	-2.8	1.7	2.2	3.0
60% S&P/TSX, 40% Dex Universe Bond Total Return	-3.0	1.5	5.2	-1.2	3.8	3.7	4.6
Signature Global Resource Corp Class Fund	0.1	3.5	18.9	20.5	29.2	19.1	9.6
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	-2.6	2.5	11.7	13.7	16.7	11.7	10.4
Signature Global Dividend Fund	-3.1	1.6	13.7	5.5	12.6	9.1	7.9
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	-2.1	2.5	14.4	3.9	7.8	5.1	5.5