

Financial and Economic Notes

January 2016 vol.154

Equity Markets

The S&P/TSX returned -1.4% for the quarter and -8.3% for the year, which will be remembered as one of the most challenging years on record for Canadian equities. Investors have experienced more significant declines before but this time, they mostly suffered alone. The pain felt during the Asian crisis (1998), the technology bubble (2000) and the global financial crisis (2008) was considerable but it was also widespread. In 2015, Canada was the worst performing developed market behind only Greece and Singapore. Valuation of Canadian equities have been weighed down by decelerating Chinese growth, the OPEC strategy to slowdown oil supply growth and concerns about a weakening Canadian consumer.

The S&P 500 index rallied strongly off of the August lows brought about by the fears of slower Chinese growth and the resulting flash crash on August 24th, finishing the quarter with a +7% return in USD (+10.9% in CAD). Despite the recovery, the index finished in negative territory for the year for the first time since 2011, although the total return, which includes dividends, was +1.4%. However, the S&P 500 offered a significant return (+21.6%) for Canadian investors when currency gains are accounted for.

EAFE equity markets (MSCI EAFE) rallied +4.7% in USD for the quarter (+8.5% in CAD) but finished slightly down (-0.8% in USD) for the year. Because of the loonie's significant weakness, Canadian investors benefited from a +19.0% return in CAD. Headlines dominated the year, starting with Russia and Ukraine, while Syria and the refugee crisis is now at the forefront. The midsummer Grexit drama has subsided and Greece remains in the European Union for now.

Highlights

For Canadian investors, 2015 can be summarized by two things: oil price and loonie watching. The commodity was and remains volatile with a significant downward bias.

Fixed Income Markets

Despite the efforts of central bankers around the world to stabilize asset prices and spur economic growth, 2015 proved to illustrate the fragility of the global recovery as solid steps to a stronger growth trajectory failed to produce results in any significant way. The domination of global event risks on overall market sentiment throughout the year also highlighted the increased sensitivity of domestic markets due to interlinked global capital flows.

Central Bank actions over the quarter included the long awaited first step toward policy normalization with a 25 basis point rate hike by the Federal Open Market Committee (FOMC) in December, resulting in a US Fed Funds Rate range of 0.25% to 0.50%. Also during the quarter, the European Central Bank added further support to the economy by extending asset purchases and increasing liquidity within the system. Finally, with his comments in December, an increasingly dovish Bank of Canada Governor lowered the band for monetary policy to -0.5%, alluding to possible further rate cuts and the need to diverge from US policy due to the negative effect of rising US rates and weak oil prices on domestic growth.

During the quarter, Canadian bond yields declined and the curve steepened, led by lower shorter term rates due to an increasingly dovish Bank of Canada. In Canada, the two-year bond yield declined 4 basis points to 0.48% while five-year bond yields declined 7bps to 0.73% over the quarter. During the same period, ten-year bond yields declined 4 basis points to 1.39%, while thirty-year bond yields declined 5 basis points to 2.15%.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of December 31, 2015

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	0.0	3.9	3.9	6.5	9.4	8.4	6.8
Multi-Index	0.3	4.3	4.3	7.6	9.4	8.9	7.1
Canadian Dividend Fund	-4.2	-7.2	-7.2	-2.7	4.5	6.4	4.7
S&P / TSX Index	-3.1	-8.3	-8.3	0.7	4.6	5.3	2.3
U.S. Equity Fund (\$CAN)	-0.3	10.7	10.7	17.0	27.5	19.6	17.6
S&P 500 Index (\$ CAN)	2.7	21.6	21.6	22.8	28.6	24.7	20.4
Money Market Fund	0.0	0.5	0.5	0.7	0.7	0.7	0.8
SCM 91 Day T-Bills	0.0	0.6	0.6	0.8	0.9	0.9	0.9
Canadian Equity Fund	-4.2	-9.4	-9.4	-4.7	1.6	3.1	0.0
S&P / TSX Index	-3.1	-8.3	-8.3	0.7	4.6	5.3	2.3
Fixed Income Fund	1.1	3.4	3.4	5.8	3.7	3.8	4.9
SCM Universe Bond Index	1.1	3.5	3.5	6.1	3.6	3.6	4.8
Growth Portfolio	-0.7	4.1	4.1	6.6	13.1	11.7	n/a
Multi-Index	-0.7	2.5	2.5	6.8	11.4	11.0	n/a
Balanced Growth Portfolio	-0.4	4.0	4.0	6.4	11.4	10.3	n/a
Multi-Index	-0.4	2.5	2.5	6.4	9.4	9.1	n/a
Balanced Portfolio	0.1	3.9	3.9	6.5	9.2	8.6	n/a
Multi-Index	0.1	2.8	2.8	6.2	7.4	7.2	n/a
Conservative Portfolio	0.5	3.8	3.8	5.8	6.3	6.2	n/a
Multi-Index	0.6	3.1	3.1	6.0	5.4	5.3	n/a
Canadian Small Capitalization Equity Fund	-1.5	-6.7	-6.7	-3.7	4.8	3.7	1.1
BMO NB Small Cap Weighted Index	-1.6	-13.3	-13.3	-8.0	-3.1	-2.9	-5.7
Momentum Fund	-3.0	-4.1	-4.1	-1.7	7.2	5.7	0.7
S&P / TSX Index	-3.1	-8.3	-8.3	0.7	4.6	5.3	2.3
FIDELITY FUNDS							
Canadian Opportunities Fund	-0.1	-6.8	-6.8	2.1	7.4	8.6	5.1
S&P / TSX Small and Mid Cap Combined Index	-3.0	-10.0	-10.0	-2.5	2.2	2.8	0.6
True North Fund	-1.4	0.4	0.4	7.9	13.4	12.7	8.7
S&P / TSX Index	-3.1	-8.3	-8.3	0.7	4.6	5.3	2.3
International Growth Fund	2.7	25.5	25.5	15.9	19.0	18.6	11.6
MSCI EAFE Index	2.9	19.0	19.0	11.1	17.3	16.7	10.8
Europe Fund	1.1	21.8	21.8	9.5	17.2	19.9	12.7
MSCI Europe Index	1.6	16.5	16.5	9.2	16.8	16.7	11.1
American Disciplined Equity Fund	1.8	20.7	20.7	22.6	29.0	24.7	18.9
S&P 500 Index (\$CAN)	2.7	21.6	21.6	22.8	28.6	24.7	20.4
NorthStar Fund	4.1	27.8	27.8	21.9	30.5	25.2	18.0
MSCI World Index	2.5	18.9	18.9	16.6	22.5	20.2	15.0
Monthly Income Fund	-0.3	3.5	3.5	6.9	9.3	9.3	9.1
Multi-Index	0.3	4.3	4.3	7.6	9.4	8.9	7.1
Canadian Asset Allocation Fund	-1.2	1.5	1.5	6.8	8.7	7.7	5.5
Multi-Index	0.3	4.3	4.3	7.6	9.4	8.9	7.1
Far East Fund	2.5	19.5	19.5	14.9	14.8	16.7	n/a
MSCI AC FE ex Jap (G)	3.6	8.9	8.9	10.8	10.9	13.0	n/a

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
CI FUNDS							
Harbour Growth & Income Fund	-0.7	0.7	0.7	4.8	8.0	8.0	5.1
Multi-Index	0.3	4.3	4.3	7.6	9.4	8.9	7.1
Synergy American Fund	0.5	18.9	18.9	19.4	27.0	23.0	18.1
S&P 500 Index (\$CAN)	2.7	21.6	21.6	22.8	28.6	24.7	20.4
Global Managers Corporate Class Fund	1.4	13.8	13.8	13.9	19.0	17.0	13.5
MSCI World Index	2.5	18.9	18.9	16.6	22.5	20.2	15.0
Signature Canadian Bond Fund	1.2	4.0	4.0	6.7	4.3	4.5	5.4
SCM Universe Bond Index	1.1	3.5	3.5	6.1	3.6	3.6	4.8
Signature High Income Fund	0.3	0.7	0.7	5.4	7.0	8.6	8.1
Multi-Index	0.3	4.3	4.3	7.6	9.4	8.9	7.1
American Value Fund	0.5	15.5	15.5	19.8	27.2	22.7	18.4
S&P 500 Index (\$CAN)	2.7	21.6	21.6	22.8	28.6	24.7	20.4
Synergy Global Corporate Class Fund	1.0	19.7	19.7	16.8	24.4	22.2	15.9
MSCI World Index	2.5	18.9	18.9	16.6	22.5	20.2	15.0
Global Small Companies Fund	1.3	21.9	21.9	14.8	24.0	21.1	14.7
MSCI World Index	2.5	18.9	18.9	16.6	22.5	20.2	15.0
Cambridge Canadian Asset Allocation Fund	-1.2	6.4	6.4	9.6	n/a	n/a	n/a
60% S&P/TSX, 40% Dex Universe Bond Total Return	1.4	3.6	3.6	2.9	n/a	n/a	n/a
Signature Diversified Yield II Fund	0.1	3.1	3.1	7.0	n/a	n/a	n/a
40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index	1.0	6.4	6.4	8.5	n/a	n/a	n/a
AGF FUNDS							
Dividend Income Fund	-1.9	1.2	1.2	3.3	7.3	7.0	5.0
S&P / TSX Index	-3.1	-7.8	-7.8	1.8	5.5	6.1	2.9
International Stock Class Fund	0.1	8.4	8.4	3.7	12.4	13.4	7.2
MSCI EAFE Index	1.9	14.5	14.5	9.7	16.5	16.1	10.4
Total Return Bond Fund	0.8	3.3	3.3	6.1	6.1	7.8	n/a
Multi-Index	2.2	17.6	17.6	14.6	12.3	12.4	n/a
Emerging Markets Fund	2.7	1.1	1.1	5.6	1.8	5.7	n/a
MSCI Emerging markets Free TR Index	1.3	1.7	1.7	4.5	4.5	7.2	n/a
Global Resources Class Fund	-5.2	-20.7	-20.7	-15.0	-8.3	-8.3	n/a
Multi-Index	-4.1	-3.7	-3.7	-1.8	5.2	4.8	n/a