

Financial and Economic Notes

April 2017 vol.159

Equity Markets

In Canada, equities are giving back some of their relative gains from last year but still performed well in the absolute sense. The first quarter of the year was positive as the S&P/TSX Composite returned 2.4%, which is lower than the return generated by US and International equities. The big banks performed well, which enabled Financials (+4%) to support the benchmark return. In contrast, the energy sector was notably weak (-5%). Given the latter's important weight, this dragged down our market's return for the quarter. All other sectors, except the tiny Health Care component, managed to generate positive returns for the period. Materials, Consumer Discretionary, Industrials, Utilities, and Technology all performed admirably during the period.

US equities outperformed the Canadian stock market in the first quarter of 2017, with the S&P 500 index extending its strong post-election rally in the, delivering a 6.1% total return in USD for the period. The loonie was modestly stronger leading to a 5.5% total return in CAD terms. Investors have embraced the prospects for reflation of the US economy, driven by increased investment, higher wages, and prospects for deregulation and lower taxes. Investor and business confidence has risen since Trump was elected. Market earnings multiples have expanded and are now 1.5 - 2 points higher than historical average.

Bouncing back from a dismal 2016, this has certainly been a great start to the year for international equities as continued improvements in economic data and corporate earnings resulted in strong outperformance versus North American equities. The MSCI EAFE Index had a positive 6.7% return in Canadian dollars for the quarter.

Highlights

This quarter was marked by the inauguration of President Trump and the political circus that followed, including new concepts such as "alternative facts".

Fixed Income Markets

The beginning of 2017 was one of mixed signals as economic data in Canada strengthened while the US delivered weaker data. As a result, the bond market had little direction and traded within a defined range through the quarter. Bonds rallied in February and March producing lower yields primarily in the seven to ten-year area of the curve due to bond short-covering activities coupled with weaker US data and a decline in oil prices. In Canada, growth in the fourth quarter of 2016 and first quarter of 2017 has remained strong with better than expected gains due to strong employment and income. Consequently, GDP growth for the first quarter in Canada has been revised up to 3.5 - 3.8% from 1.9% previously and should outperform the US where GDP growth is expected to slow to 1.6% for the quarter.

The Bank of Canada remained neutral throughout the quarter as Bank officials continue to remain cautious despite the strength of recent data. While a chance for a rate cut is now remote, the cautious stance by Governor Poloz and the uncertainty surrounding the impact of Trump's pro-protectionist policies reduce the likelihood for a rate hike by the Bank of Canada in 2017. In contrast, the US has weakening economic data but it is viewed as transitory, with the economy expected to gain momentum as confidence continues to improve.

The yield delivered by fixed income assets remained relatively stable through the first quarter of 2017 and traded in a narrow range.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of March 31, 2017

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	1.2	2.4	11.3	4.6	6.4	8.5	8.2
Multi-Index	1.1	2.9	11.3	4.5	7.1	8.6	8.5
Canadian Dividend Fund	1.4	1.1	17.4	7.5	5.1	8.8	8.8
S&P / TSX Index	1.3	2.4	18.6	5.3	5.8	8.3	7.8
U.S. Equity Fund (\$CAN)	0.8	2.8	19.4	5.3	12.5	18.9	16.5
S&P 500 Index (\$ CAN)	0.8	5.5	20.8	12.1	17.6	21.1	20.0
Money Market Fund	0.0	0.1	0.5	0.5	0.6	0.6	0.6
SCM 91 Day T-Bills	0.0	0.1	0.5	0.5	0.6	0.7	0.8
Canadian Equity Fund	1.6	1.1	18.6	7.3	3.3	7.1	6.3
S&P / TSX Index	1.3	2.4	18.6	5.3	5.8	8.3	7.8
Fixed Income Fund	0.5	1.5	2.4	1.6	4.1	3.5	3.8
SCM Universe Bond Index	0.4	1.2	1.5	1.1	4.1	3.3	3.5
Growth Portfolio	1.2	2.8	16.2	6.7	8.0	12.2	11.7
Multi-Index	1.6	3.8	17.8	6.2	8.2	11.2	10.8
Balanced Growth Portfolio	1.0	2.5	12.7	5.1	6.8	10.2	10.0
Multi-Index	1.3	3.2	13.9	5.1	7.1	9.3	9.0
Balanced Portfolio	0.9	2.3	10.2	4.3	6.3	8.4	8.3
Multi-Index	1.0	2.5	9.7	3.8	6.1	7.2	7.1
Conservative Portfolio	0.8	1.9	6.7	3.5	5.3	6.0	6.1
Multi-Index	0.7	1.8	5.5	2.4	5.0	5.1	5.2
Canadian Small Capitalization Equity Fund	-0.9	0.6	34.0	15.0	7.3	12.0	9.4
BMO NB Small Cap Weighted Index	1.0	1.5	29.5	10.5	3.3	6.2	3.4
Momentum Fund	-1.3	-2.7	28.1	11.6	7.1	11.0	11.4
S&P / TSX Index	1.3	2.4	18.6	5.3	5.8	8.3	7.8
FIDELITY FUNDS							
Canadian Opportunities Fund	1.5	1.8	23.4	9.1	9.6	12.1	11.2
S&P / TSX Small and Mid Cap Combined Index	1.5	2.3	16.9	3.8	2.9	6.2	5.8
True North Fund	1.0	1.2	11.1	4.8	8.2	11.8	11.9
S&P / TSX Index	1.3	2.4	18.6	5.3	5.8	8.3	7.8
International Growth Fund	3.4	9.0	12.2	5.3	10.3	13.6	13.1
MSCI EAFE Index	3.5	6.7	15.2	3.9	7.0	11.9	12.1
Europe Fund	4.2	7.2	8.9	1.8	4.0	11.0	11.8
MSCI Europe Index	4.7	6.9	13.2	2.9	4.9	11.8	11.9
American Disciplined Equity Fund	-0.1	4.9	16.7	6.9	15.3	19.9	18.4
S&P 500 Index (\$CAN)	0.8	5.5	20.8	12.1	17.6	21.1	20.0
NorthStar Fund	1.1	2.9	8.0	7.6	12.9	18.8	18.5
MSCI World Index	1.8	5.8	18.3	8.0	12.4	16.4	15.9
Monthly Income Fund	0.7	1.7	7.9	5.1	7.0	8.3	8.8
Multi-Index	1.1	2.9	11.3	4.5	7.1	8.6	8.5
Canadian Asset Allocation Fund	1.1	2.4	10.5	4.6	6.7	8.7	8.0
Multi-Index	1.1	2.9	11.3	4.5	7.1	8.6	8.5
Far East Fund	5.0	13.2	17.2	5.6	13.0	12.5	12.9
MSCI AC FE ex Jap (G)	3.7	12.4	21.4	4.8	11.5	11.6	11.2

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Gross returns as of March 31, 2017

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
CI FUNDS							
Harbour Growth & Income Fund	1.0	3.2	11.9	5.6	6.6	8.2	7.7
Multi-Index	1.1	2.9	11.3	4.5	7.1	8.6	8.5
Synergy American Fund	0.3	4.2	16.6	7.1	12.9	18.1	17.3
S&P 500 Index (\$CAN)	0.8	5.5	20.8	12.1	17.6	21.1	20.0
Global Managers Corporate Class Fund	1.4	4.9	17.0	7.0	11.1	14.3	14.3
MSCI World Index	1.8	5.8	18.3	8.0	12.4	16.4	15.9
Signature Canadian Bond Fund	0.4	1.4	2.2	1.7	4.6	3.9	4.3
SCM Universe Bond Index	0.4	1.2	1.5	1.1	4.1	3.3	3.5
Signature High Income Fund	-0.2	1.9	12.5	3.0	5.4	6.9	8.1
Multi-Index	1.1	2.9	11.3	4.5	7.1	8.6	8.5
American Value Fund	0.2	5.1	19.8	9.1	15.6	19.8	18.2
S&P 500 Index (\$CAN)	0.8	5.5	20.8	12.1	17.6	21.1	20.0
Synergy Global Corporate Class Fund	1.4	4.8	15.4	6.0	11.2	16.0	16.0
MSCI World Index	1.8	5.8	18.3	8.0	12.4	16.4	15.9
Global Small Companies Fund	0.6	4.1	17.4	8.3	10.4	16.9	16.0
MSCI World Index	1.8	5.8	18.3	8.0	12.4	16.4	15.9
Cambridge Canadian Asset Allocation Fund	0.0	1.5	10.5	5.4	8.0	10.5	10.3
60% S&P/TSX, 40% Dex Universe Bond Total Return	1.0	2.0	11.5	3.7	5.2	6.3	6.2
Signature Diversified Yield II Fund	0.1	2.6	12.4	3.1	6.4	7.9	9.4
40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index	0.3	3.3	11.5	6.0	8.3	9.6	10.9
AGF FUNDS							
Dividend Income Fund	0.6	3.1	16.8	10.5	7.5	10.0	8.9
S&P / TSX 60 Index	1.3	2.4	19.3	5.8	6.9	9.0	8.6
Total Return Bond Fund	0.7	3.3	9.8	4.5	5.4	6.3	6.8
Multi-Index	0.3	2.0	10.8	8.0	10.2	10.9	11.0
Emerging Markets Fund	2.7	10.4	19.9	4.0	8.3	5.5	5.7
MSCI Emerging markets Free Index	2.6	10.4	20.5	4.4	8.1	7.9	7.2
Global Resources Class Fund	-0.4	-7.6	14.3	-4.2	-8.5	-2.1	-3.6
60% MSCI World Energy Index/40% MSCI World Materials Index	0.6	-1.1	22.6	4.1	3.3	7.8	7.0