

Financial and Economic Notes

January 2017 vol.158

Equity Markets

Financial markets, notoriously averse to uncertainty, finished the following day at higher levels after a very brief instance of panic. Equity markets have since continued to march higher despite a flurry of controversial statements by the President-elect. Investors have instead turned their worry towards the global bond market. Trump policies are likely to stimulate inflation and insure a path away from loose monetary policies.

Canada's year it was for equities! It is the first time that we can say this in the last six years in relation to US equity performance. In 2016, every quarter, including this last one, showed strong gains for Canadian equities as resources showed signs of life. In the fourth quarter, the S&P/TSX Composite returned 4.5%, which brought the full year performance to an impressive 21.1%. Resource performance was a net positive this quarter with Energy strength (7%) outpacing Materials weakness (-6%).

While not quite measuring up the Canadian standard, US equities nevertheless offered some very healthy returns in 2016 (12% in US dollar terms and 8.1% in CAD dollar terms). The latest quarter was also strong with the S&P 500 index delivering a 3.8% total return (in USD). In CAD terms, the S&P 500 returned 5.9%, as the loonie depreciated. The gains came in the wake of the US election, with most attributing the surge in equities to a "Trump Bump".

In 2016, EAFE equities proved to be the only major equity asset class unable to deliver positive returns for Canadian investors (-2.2% in CAD dollars). The MSCI EAFE Index posted a positive return of 1.6% in Canadian dollars.

Highlights

How's that for an interesting twist? The ever-controversial Donald Trump surprises the world with a successful Presidential campaign. Most investors must admit to being surprised by the market's reaction following the election.

Fixed Income Markets

The fourth quarter of 2016 proved to be highly negative for bonds as total returns turned negative and yields rose sharply during the quarter. Canadian bonds followed the sell-off in US Treasuries and the curve steepened as longer maturity bond yields moved higher than shorter dated bonds. While it was expected that yields would move higher from the record lows established in late September of this year, the degree and rapid pace of the rise in rates was significant and somewhat unexpected by market participants. A number of factors drove the move to higher yields including strengthening economic data, stabilization of global risks, more optimism surrounding projected growth by central banks, and a focus on the limitations of quantitative easing programs going forward.

The Bank of Canada maintained the overnight rate at 0.50% during the quarter with domestic and export led growth prospects expected to improve in 2017. The significance of the 2016 Budget infrastructure spending should continue to support stronger growth in addition to a strengthening US economy.

The trend in fixed income assets reversed sharply in the fourth quarter as the yield curve moved up and a significant steepening of the curve took place. During the quarter, the Canadian two-year bond yield increased 23 basis points to 0.75%, while five-year yields increased 50 basis points to 1.11% over the quarter. During the same period, Canadian ten-year bond yields rose the most across the curve, increasing by 73 basis points to 1.72%, while the thirty-year Canada yield increased 65 basis points to 2.31%.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of December 31, 2016

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	0.7	8.2	8.2	6.0	7.0	9.1	8.4
Multi-Index	0.9	7.8	7.8	6.0	7.6	8.9	8.7
Canadian Dividend Fund	1.2	26.1	26.1	8.2	6.1	9.5	10.0
S&P / TSX Index	1.7	21.1	21.1	5.4	7.1	8.5	8.2
U.S. Equity Fund (\$CAN)	0.0	9.0	9.0	9.8	14.3	22.6	17.4
S&P 500 Index (\$ CAN)	1.7	8.1	8.1	14.6	17.7	23.2	21.2
Money Market Fund	0.0	0.5	0.5	0.5	0.6	0.6	0.7
SCM 91 Day T-Bills	0.1	0.5	0.5	0.6	0.7	0.8	0.8
Canadian Equity Fund	0.9	26.5	26.5	7.1	4.7	7.3	7.4
S&P / TSX Index	1.7	21.1	21.1	5.4	7.1	8.5	8.2
Fixed Income Fund	-0.3	2.3	2.3	2.8	4.6	3.3	3.5
SCM Universe Bond Index	-0.5	1.7	1.7	2.6	4.6	3.1	3.2
Growth Portfolio	0.7	13.7	13.7	8.8	8.9	13.2	12.1
Multi-Index	1.9	12.9	12.9	7.6	8.8	11.7	11.3
Balanced Growth Portfolio	-0.3	10.3	10.3	7.1	7.7	11.1	10.3
Multi-Index	1.4	10.4	10.4	6.4	7.7	9.6	9.4
Balanced Portfolio	0.5	8.1	8.1	6.0	7.0	8.9	8.5
Multi-Index	0.8	7.4	7.4	5.1	6.6	7.4	7.3
Conservative Portfolio	0.3	6.0	6.0	4.9	5.8	6.2	6.1
Multi-Index	0.1	4.5	4.5	3.8	5.5	5.2	5.1
Canadian Small Capitalization Equity Fund	4.4	42.8	42.8	15.4	9.8	13.2	10.6
BMO NB Small Cap Weighted Index	3.9	38.5	38.5	9.6	5.4	6.0	4.3
Momentum Fund	-4.4	40.9	40.9	16.2	10.8	14.8	11.9
S&P / TSX Index	1.7	21.1	21.1	5.4	7.1	8.5	8.2
FIDELITY FUNDS							
Canadian Opportunities Fund	3.0	27.5	27.5	9.0	10.0	12.1	12.2
S&P / TSX Small and Mid Cap Combined Index	1.7	20.5	20.5	4.1	4.7	6.5	6.2
True North Fund	1.5	12.5	12.5	6.3	9.4	13.2	12.7
S&P / TSX Index	1.7	21.1	21.1	5.4	7.1	8.5	8.2
International Growth Fund	1.1	-5.5	-5.5	8.9	8.3	12.4	13.3
MSCI EAFE Index	3.1	-2.5	-2.5	7.7	6.3	12.0	12.6
Europe Fund	4.7	-8.8	-8.8	5.4	3.0	10.1	13.5
MSCI Europe Index	5.0	-3.8	-3.8	5.8	4.6	11.2	12.3
American Disciplined Equity Fund	1.0	2.2	2.2	11.0	15.4	21.7	19.9
S&P 500 Index (\$CAN)	1.7	8.1	8.1	14.6	17.7	23.2	21.2
NorthStar Fund	0.0	0.3	0.3	13.2	14.2	22.2	19.8
MSCI World Index	2.1	3.8	3.8	11.1	12.2	17.5	16.7
Monthly Income Fund	0.7	9.0	9.0	6.2	7.6	9.2	9.3
Multi-Index	0.9	7.8	7.8	6.0	7.6	8.9	8.7
Canadian Asset Allocation Fund	0.5	9.5	9.5	5.4	7.7	8.9	8.1
Multi-Index	0.9	7.8	7.8	6.0	7.6	8.9	8.7
Far East Fund	-2.5	-3.7	-3.7	7.3	8.3	9.8	12.3
MSCI AC FE ex Jap (G)	-2.5	2.9	2.9	5.8	8.1	8.8	10.9

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
CI FUNDS							
Harbour Growth & Income Fund	1.7	10.3	10.3	5.4	6.6	8.6	8.4
Multi-Index	0.9	7.8	7.8	6.0	7.6	8.9	8.7
Synergy American Fund	0.9	3.8	3.8	11.1	14.0	20.8	18.9
S&P 500 Index (\$CAN)	1.7	8.1	8.1	14.6	17.7	23.2	21.2
Global Managers Corporate Class Fund	2.2	6.3	6.3	10.0	11.3	15.7	4.8
MSCI World Index	2.1	3.8	3.8	11.1	12.2	17.5	16.7
Signature Canadian Bond Fund	-0.4	2.2	2.2	3.1	5.2	3.8	4.1
SCM Universe Bond Index	-0.5	1.7	1.7	2.6	4.6	3.1	3.2
Signature High Income Fund	2.0	8.2	8.2	4.4	6.3	7.3	8.5
Multi-Index	0.9	7.8	7.8	6.0	7.6	8.9	8.7
American Value Fund	1.4	7.0	7.0	11.2	15.4	21.8	19.4
S&P 500 Index (\$CAN)	1.7	8.1	8.1	14.6	17.7	23.2	21.2
Synergy Global Corporate Class Fund	2.0	0.7	0.7	9.8	11.2	18.0	17.5
MSCI World Index	2.1	3.8	3.8	11.1	12.2	17.5	16.7
Global Small Companies Fund	1.1	5.2	5.2	13.3	11.5	19.0	17.7
MSCI World Index	2.1	3.8	3.8	11.1	12.2	17.5	16.7
Cambridge Canadian Asset Allocation Fund	0.7	9.0	9.0	7.7	9.4	12.2	11.0
60% S&P/TSX, 40% Dex Universe Bond Total Return	0.8	13.0	13.0	4.4	6.2	6.4	6.3
Signature Diversified Yield II Fund	1.7	7.1	7.1	5.1	7.1	8.5	9.9
40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index	2.8	9.0	9.0	7.7	8.7	10.2	12.0
AGF FUNDS							
Dividend Income Fund	2.3	18.8	18.8	9.7	8.3	10.0	9.2
S&P / TSX 60 Index	1.6	21.4	21.4	5.8	7.9	9.2	9.0
Total Return Bond Fund	0.9	6.2	6.2	4.8	6.1	6.1	7.5
Multi-Index	1.1	6.9	6.9	12.1	12.0	10.9	11.3
Emerging Markets Fund	0.7	7.5	7.5	4.3	6.3	3.2	6.1
MSCI Emerging markets Free Index	0.3	8.5	8.5	5.0	5.8	5.5	7.5
Global Resources Class Fund	0.3	26.8	26.8	0.2	-2.9	-0.6	-2.1
60% MSCI World Energy Index/40% MSCI World Materials Index	2.9	22.5	22.5	8.6	5.7	9.3	8.2