

Financial and Economic Notes

October 2014 vol.149

Equity Markets

For much of the past year, equity markets around the world were rising in a fairly correlated fashion; however, this relationship broke down during the latest period. The off-coordinated monetary policy moves of the major central banks also fell out of sync with one another, leading to heavy volatility in the currency market.

In Canada, the S&P/TSX Composite Index returned -0.6% in the third quarter. After four consecutive quarters of 6% returns or better, the Canadian equity market's winning streak came to an abrupt end in the final stretch of the period. Equities were strong for most of the period, but things soured midway through September as talk of a US rate increase and mounting geopolitical risks – the Ukraine Conflict, ISIS in the Middle East, the Scottish independence referendum, the growing Ebola outbreak in West Africa, and pro-democracy protests in Hong Kong – convinced investors that it was time to start taking some profits. During that difficult September stretch, the Energy and Materials sectors were hit particularly hard, finishing the quarter down 6% and 10%, respectively

In the US, the S&P 500 gained 1.13% in the third quarter. From a Canadian investor's perspective, this modest return was enhanced significantly by the strengthening US dollar and translated to a 6.1% return in CAD. The US greenback advanced as the US emerged as a clear growth leader. In CAD dollar terms, the market breadth was rather healthy, with seven of ten sectors finishing in positive territory. The three sectors to shed ground in the quarter were Utilities, Industrials, and finally the Energy sector, which recorded the worst performance in the S&P 500.

EAFE equity markets (MSCI EAFE) fell 5.88% in USD (-1.25% in CAD) during the third quarter, underperforming both the US and Canadian markets for a second straight quarter. By region, most of the MSCI EAFE's 21 constituent countries finished in the red. Europe's largest economy was no exception as a sizeable decline in the German DAX weighted heavily on overall Index performance. Although there are clearly growth and employment challenges affecting the Eurozone, full-scale quantitative easing by the European Central Bank appears unlikely, as it faces steadfast opposition from German authorities.

Highlights

During the third quarter, the global economy continued to make slow progress, albeit uneven.

Fixed Income Markets

There was a high level of market uncertainty during the third quarter, with improving fundamentals in North America offset by further evidence of an economic slowdown in Europe, Japan and in overall global growth.

Overall, economic activity in North America has been better than expected, increasing the likelihood that both the US Federal Reserve and the Bank of Canada will raise policy rates by mid-2015. In Canada, economic growth remained ahead of the Bank of Canada's projections, with Q3 GDP expected to come in at 2.5%. The unemployment rate edged down 0.3% during the quarter, ending the period at 6.8%. The inflation rate rose at a healthy pace, with the latest CPI reading for the month of August at 2.2%; while the housing market remained stable.

Yet despite the uptick in pricing data, the Bank of Canada maintained its dovish bias. In all likelihood, the Canadian policy rate will only be increased after the US Federal Reserve starts tightening on their end. The United States continued to show signs of an improving economic landscape. The unemployment rate fell to 5.9%, dipping below 6% for the first time since 2008, and Q3 GDP growth is estimated to have been quite strong at 3% to 3.2%.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of September 30, 2014

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	-1.8	8.1	15.1	13.0	11.2	8.4	7.9
Multi-Index	-1.3	8.7	14.9	11.8	11.0	8.3	8.1
Canadian Dividend Fund	-5.5	8.3	17.3	15.8	15.9	12.6	12.8
S&P / TSX Index	-4.0	12.2	20.4	13.6	12.1	7.9	8.7
U.S. Equity Fund (\$CAN)	1.0	15.3	34.6	32.0	25.1	19.3	15.9
S&P 500 Index (\$ CAN)	1.6	14.0	30.2	27.4	26.0	19.5	16.7
Money Market Fund	0.1	0.6	0.8	0.8	0.8	0.8	0.8
SCM 91 Day T-Bills	0.1	0.7	0.9	1.0	1.0	1.0	0.9
Canadian Equity Fund	-7.1	10.2	18.5	13.8	12.8	8.1	7.3
S&P / TSX Index	-4.0	12.2	20.4	13.6	12.1	7.9	8.7
Fixed Income Fund	-0.5	5.9	6.7	2.9	3.9	4.6	5.2
SCM Universe Bond Index	-0.6	5.9	6.3	2.5	3.5	4.2	4.9
Growth Portfolio	-3.0	9.1	18.9	19.8	16.9	n/a	n/a
Multi-Index	-2.2	10.4	20.0	17.2	15.1	n/a	n/a
Balanced Growth Portfolio	-2.5	8.3	16.5	16.5	14.3	n/a	n/a
Multi-Index	-1.9	9.3	16.7	13.6	12.3	n/a	n/a
Balanced Portfolio	-1.6	7.7	13.7	12.4	11.2	n/a	n/a
Multi-Index	-1.4	8.1	13.1	9.8	9.3	n/a	n/a
Conservative Portfolio	-1.3	7.0	10.5	7.8	7.9	n/a	n/a
Multi-Index	-1.0	6.8	9.5	6.0	6.2	n/a	n/a
Small Cap. Canadian Equity Fund	-10.2	7.0	16.1	16.2	13.8	9.6	15.0
BMO NB Small Cap Weighted Index	-9.3	7.0	14.4	6.2	6.0	2.7	7.5
TSX Momentum	-4.5	6.8	14.2	16.2	11.4	6.7	9.0
S&P / TSX Index	-4.0	12.2	20.4	13.6	12.1	7.9	8.7
FIDELITY FUNDS							
Canadian Opportunities Fund	0.0	6.1	13.8	14.7	13.2	10.1	12.6
S&P / TSX Small and Mid Cap Combined Index	-5.3	10.9	17.7	11.5	11.3	8.0	11.3
True North Fund	-1.8	11.2	19.8	19.8	16.7	12.2	11.6
S&P / TSX Index	-4.0	12.2	20.4	13.6	12.1	7.9	8.7
Overseas Fund	0.2	3.6	14.5	18.5	15.8	8.9	7.8
MSCI EAFE Index	-0.9	3.7	13.4	21.1	16.5	9.6	7.5
Europe Fund	-0.4	-1.6	11.4	19.9	20.4	11.6	10.3
MSCI Europe Index	-0.8	3.2	15.0	22.2	18.3	10.3	7.8
American Disciplined Equity Fund	1.6	13.9	31.1	27.8	25.9	18.7	15.9
S&P 500 Index (\$CAN)	1.6	14.0	30.2	27.4	26.0	19.5	16.7
NorthStar Fund	0.7	14.2	26.6	32.9	24.6	17.3	15.5
MSCI World Index	0.2	9.3	22.0	23.8	20.8	14.2	11.8
Monthly Income Fund	-0.9	7.1	12.1	12.0	12.1	10.7	11.8
Multi-Index	-1.3	8.7	14.9	11.8	11.0	8.3	8.1
Canadian Asset Allocation Fund	-2.2	11.6	18.0	12.6	10.6	8.1	8.0
Multi-Index	-1.3	8.7	14.9	11.8	11.0	8.3	8.1
Far East Fund	-1.9	5.1	14.2	14.9	14.9	n/a	n/a
MSCI AC FE ex Jap (G)	-3.4	8.6	15.4	13.9	14.1	n/a	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	-2.0	8.1	15.5	11.8	11.5	8.3	7.4
Multi-Index	-1.3	8.7	14.9	11.8	11.0	8.3	8.1
Synergy American Fund	0.9	13.8	30.0	29.2	25.6	19.0	15.7
S&P 500 Index (\$CAN)	1.6	14.0	30.2	27.4	26.0	19.5	16.7
Global Managers Corporate Class Fund	0.6	9.2	18.9	20.7	18.1	14.0	11.8
MSCI World Index	0.2	9.3	22.0	23.8	20.8	14.2	11.8
Signature Canadian Bond Fund	-0.6	6.7	7.3	3.6	4.5	4.9	5.7
SCM Universe Bond Index	-0.6	5.9	6.3	2.5	3.5	4.2	4.9
Signature High Income	-1.4	9.3	14.1	11.5	12.9	11.0	12.6
Multi-Index	-1.3	8.7	14.9	11.8	11.0	8.3	8.1
American Value	1.4	12.3	27.7	27.8	24.3	18.1	15.6
S&P 500 Index (\$CAN)	1.6	14.0	30.2	27.4	26.0	19.5	16.7
Synergy Global Corporate Class	0.8	9.2	24.0	27.2	23.2	16.1	13.9
MSCI World Index	0.2	9.3	22.0	23.8	20.8	14.2	11.8
Global Small Companies	-2.1	1.7	14.1	23.5	20.7	14.4	13.7
MSCI World Index	0.2	9.3	22.0	23.8	20.8	14.2	11.8
Cambridge Canadian Asset Allocation Fund	-1.4	9.3	15.2	n/a	n/a	n/a	n/a
60% S&P/TSX, 40% Dex Universe Bond Total Return	-2.6	9.7	14.7	n/a	n/a	n/a	n/a
Signature Diversified Yield II Fund	-1.4	7.9	12.3	n/a	n/a	n/a	n/a
40% HOAO Index, 30% MSCI World TR Index, 30% FTSE EPRA/NAREIT Developed Index	-1.7	7.9	13.6	n/a	n/a	n/a	n/a
AGF FUNDS							
Dividend Income Fund	-4.5	10.8	19.4	13.0	13.3	9.5	9.7
S&P / TSX Index	-3.5	12.7	21.3	14.3	12.3	7.9	7.9
International Stock Class Fund	-2.2	4.3	15.4	24.4	16.1	6.8	3.9
MSCI EAFE Index	-1.9	5.3	14.0	21.8	16.8	10.2	8.0
Total Return Bond Fund	0.1	7.9	12.5	8.9	10.7	n/a	n/a
Multi-Index	0.7	9.6	15.1	10.8	10.5	n/a	n/a
Emerging Markets Fund	-3.9	11.1	12.6	6.1	8.3	n/a	n/a
MSCI Emerging markets Free TR Index	-4.7	8.3	13.7	9.9	10.0	n/a	n/a
Global Resources Class Fund	-9.5	11.8	19.6	8.6	4.4	n/a	n/a
Multi-Index	-4.1	7.7	17.6	14.9	13.7	n/a	n/a