

# Financial and Economic Notes

October 2018 vol. 165

## Equity Markets

Canadian equities drifted slightly lower during this period after bouncing around more significantly in the first two quarters of the year. The S&P/TSX Composite was down 0.6% as it deals with lack of interest and concerns by foreign investors. The concerns revolve around trade discussions getting resolved and our country's inability to bring significant projects to fruition. To our chagrin, cannabis momentum investing continued to work as we approach legalization. Aside from that, market breadth was weak with only six of eleven sectors posting gains. The gains in Health Care (+31%), Industrials (+6%) and Financials (+4%) were the most significant. Materials (-13%), Consumer Discretionary (-9%) and Energy (-6%) were difficult areas for investors this quarter.

The S&P 500 index recorded strong absolute performance during the summer quarter, returning 7.7% in USD terms. The loonie strengthened in the quarter, leading to a 5.8% total return in CAD terms. Global trade concerns rose through the quarter, with tariffs being imposed on many Chinese goods followed by some retaliatory measures. As the quarter ended, a new NAFTA deal (rebranded USMCA) was reached. This leaves US-China trade as the remaining economic wildcard for the US market.

This was another soft quarter for EAFE equities with the index posting a -0.5% return in Canadian dollars, and significantly underperforming its US peers year-to-date. Several factors are behind this quarter's underperformance including trade tension between the US and China, fears of a no-deal Brexit, political uncertainty in Italy & Turkey, and general softer economic indicators.

## Highlights

For most Canadian investors, the end result for this quarter were good returns from US equities but negative returns for Canadian and EAFE equities.

## Fixed Income Markets

Trade talks and the threat of further tariffs served as an overhang to risk sentiment and kept bonds in a stable trading range. Overall, interest rates ended the quarter higher than where they began due to strong economic data and indications that the Bank of Canada and US Federal Reserve will continue to hike rates. As a result, the yield curve flattened further and the likelihood for an inverted yield curve increased as the central banks indicated their need to "normalize policy rates" and their intention to continue hiking to the end of 2019. During the quarter, two-year bonds increased 30 basis points to 2.21% while five-year Canada bonds increased 27 basis points to 2.34%. Ten and thirty-year Canada yields closed the quarter at the same level of 2.42%, with ten-year bonds increasing 26 basis points and thirty-year bonds up by 22 basis points.

Fundamentally, economic data has continued to strengthen with third quarter GDP growth in Canada forecasted at 1.8%, while US growth is expected to be 3%. The powerful effects of tax reform, strong equity markets and the highest consumer confidence levels in 12 years has promoted a highly optimistic landscape in the US. In contrast, consumer confidence levels in Canada hit 12-year lows as growth has been led by infrastructure spending and international trade. An unemployment rate of 6% in Canada and 3.9% in the US (the lowest reading since the 1950s) could also help explain the relative difference in consumer confidence levels between the two countries.

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## Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of September 30, 2018

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
<b>ASSUMPTION / LOUISBOURG FUNDS</b>							
<b>Balanced Fund - RPP</b>	<b>-0.7</b>	<b>1.4</b>	<b>5.6</b>	<b>5.8</b>	<b>6.8</b>	<b>5.5</b>	<b>7.4</b>
Multi-Index	-0.7	2.9	6.8	6.0	7.1	6.2	7.9
<b>Canadian Dividend Fund</b>	<b>-2.0</b>	<b>-2.2</b>	<b>3.3</b>	<b>5.8</b>	<b>10.5</b>	<b>4.1</b>	<b>6.6</b>
S&P / TSX Index	-0.9	1.4	5.9	7.5	9.7	4.9	7.8
<b>U.S. Equity Fund (\$CAN)</b>	<b>0.7</b>	<b>9.0</b>	<b>18.1</b>	<b>14.3</b>	<b>11.9</b>	<b>11.7</b>	<b>16.0</b>
S&P 500 Index (\$ CAN)	-0.3	14.1	21.9	17.3	15.9	16.7	19.3
<b>Money Market Fund</b>	<b>0.1</b>	<b>1.0</b>	<b>1.2</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>
SCM 91 Day T-Bills	0.1	0.9	1.1	0.8	0.7	0.7	0.8
<b>Fixed Income Fund</b>	<b>-0.8</b>	<b>-0.1</b>	<b>1.8</b>	<b>0.2</b>	<b>2.1</b>	<b>2.8</b>	<b>3.5</b>
SCM Universe Bond Index	-1.0	-0.3	1.7	-0.7	1.6	2.5	3.3
<b>Growth Portfolio</b>	<b>-1.0</b>	<b>1.7</b>	<b>7.7</b>	<b>7.5</b>	<b>9.7</b>	<b>7.4</b>	<b>9.6</b>
Multi-Index	-0.6	3.8	8.8	9.6	10.3	7.7	10.1
<b>Balanced Growth Portfolio</b>	<b>-0.9</b>	<b>1.5</b>	<b>6.8</b>	<b>5.9</b>	<b>8.0</b>	<b>6.3</b>	<b>8.3</b>
Multi-Index	-0.7	2.9	7.1	7.2	8.3	6.4	8.4
<b>Balanced Portfolio</b>	<b>-0.7</b>	<b>1.4</b>	<b>5.5</b>	<b>4.7</b>	<b>6.4</b>	<b>5.5</b>	<b>7.0</b>
Multi-Index	-0.7	1.8	5.2	4.6	6.0	5.1	6.7
<b>Conservative Portfolio</b>	<b>-0.7</b>	<b>1.0</b>	<b>4.0</b>	<b>3.0</b>	<b>4.7</b>	<b>4.2</b>	<b>5.4</b>
Multi-Index	-0.8	0.7	3.4	1.9	3.7	3.7	4.9
<b>Canadian Small Capitalization Equity Fund</b>	<b>-1.2</b>	<b>-11.6</b>	<b>-6.1</b>	<b>-2.6</b>	<b>9.3</b>	<b>2.3</b>	<b>4.9</b>
BMO NB Small Cap Weighted Index	-1.3	-4.4	0.1	0.6	11.2	1.9	4.2
<b>Momentum Fund</b>	<b>1.2</b>	<b>10.2</b>	<b>21.1</b>	<b>9.8</b>	<b>16.7</b>	<b>10.3</b>	<b>11.1</b>
S&P / TSX Index	-0.9	1.4	5.9	7.5	9.7	4.9	7.8
<b>Preferred Share Fund</b>	<b>-0.5</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
S&P/TSX Preferred Share (TXPR) Index	-0.3	n/a	n/a	n/a	n/a	n/a	n/a
<b>FIDELITY FUNDS</b>							
<b>Canadian Opportunities Fund</b>	<b>0.3</b>	<b>4.2</b>	<b>7.8</b>	<b>6.0</b>	<b>11.9</b>	<b>8.3</b>	<b>9.4</b>
S&P / TSX Small and Mid Cap Combined Index	-0.2	1.0	3.9	4.7	9.1	2.8	5.6
<b>True North Fund</b>	<b>-1.3</b>	<b>3.3</b>	<b>7.1</b>	<b>6.6</b>	<b>7.9</b>	<b>6.9</b>	<b>9.4</b>
S&P / TSX Index	-0.9	1.4	5.9	7.5	9.7	4.9	7.8
<b>International Growth Fund</b>	<b>-1.2</b>	<b>4.3</b>	<b>10.1</b>	<b>10.9</b>	<b>9.6</b>	<b>12.0</b>	<b>12.5</b>
MSCI EAFE Index	0.0	1.7	6.2	9.7	7.9	8.3	9.3
<b>Europe Fund</b>	<b>-0.8</b>	<b>2.7</b>	<b>3.9</b>	<b>11.3</b>	<b>5.7</b>	<b>7.9</b>	<b>8.6</b>
MSCI Europe Index	-0.5	0.6	3.0	9.5	6.4	7.0	8.6
<b>American Disciplined Equity Fund</b>	<b>-0.3</b>	<b>11.9</b>	<b>20.4</b>	<b>15.4</b>	<b>12.5</b>	<b>14.5</b>	<b>17.7</b>
S&P 500 Index (\$CAN)	-0.3	14.1	21.9	17.3	15.9	16.7	19.3
<b>NorthStar Fund</b>	<b>-0.7</b>	<b>-0.1</b>	<b>4.9</b>	<b>3.7</b>	<b>3.9</b>	<b>8.6</b>	<b>12.0</b>
MSCI World Index	-0.3	8.8	15.0	13.7	12.2	12.6	14.4
<b>Monthly Income Fund</b>	<b>-0.7</b>	<b>1.2</b>	<b>3.0</b>	<b>2.8</b>	<b>5.4</b>	<b>5.3</b>	<b>6.6</b>
Multi-Index	-0.7	2.9	6.8	6.0	7.1	6.2	7.9
<b>Canadian Asset Allocation Fund</b>	<b>-1.0</b>	<b>1.9</b>	<b>5.9</b>	<b>4.6</b>	<b>6.7</b>	<b>5.2</b>	<b>7.6</b>
Multi-Index	-0.7	2.9	6.8	6.0	7.1	6.2	7.9

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
<b>FIDELITY FUNDS</b>							
<b>Far East Fund</b>	<b>-2.0</b>	<b>-2.7</b>	<b>8.1</b>	<b>13.0</b>	<b>13.3</b>	<b>13.8</b>	<b>13.9</b>
MSCI AC FE ex Jap (G)	-1.3	-2.6	5.3	11.5	13.0	10.8	11.7
<b>Emerging Market Fund</b>	<b>-2.8</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
MSCI Emerging Markets (G)	-1.4	n/a	n/a	n/a	n/a	n/a	n/a
<b>NorthStar Balanced Fund</b>	<b>-0.8</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Northstar Balanced Blend	-1.1	n/a	n/a	n/a	n/a	n/a	n/a
<b>CI FUNDS</b>							
<b>Signature Corporate Bond Fund</b>	<b>-0.2</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Multi-Index	-0.1	n/a	n/a	n/a	n/a	n/a	n/a
<b>Signature Canadian Bond Fund</b>	<b>-0.9</b>	<b>-0.2</b>	<b>1.4</b>	<b>-0.7</b>	<b>1.8</b>	<b>2.7</b>	<b>3.6</b>
SCM Universe Bond Index	-1.0	-0.3	1.7	-0.7	1.6	2.5	3.3
<b>Harbour Growth &amp; Income Fund</b>	<b>-0.9</b>	<b>-3.1</b>	<b>0.3</b>	<b>1.5</b>	<b>4.6</b>	<b>3.5</b>	<b>5.8</b>
Multi-Index	-0.7	2.9	6.8	6.0	7.1	6.2	7.9
<b>Signature High Income Fund</b>	<b>-1.2</b>	<b>2.6</b>	<b>4.6</b>	<b>4.1</b>	<b>5.7</b>	<b>4.2</b>	<b>6.2</b>
Multi-Index	-0.7	2.9	6.8	6.0	7.1	6.2	7.9
<b>American Value Fund</b>	<b>-0.9</b>	<b>11.3</b>	<b>18.5</b>	<b>15.5</b>	<b>13.6</b>	<b>14.3</b>	<b>16.9</b>
S&P 500 Index (\$CAN)	-0.3	14.1	21.9	17.3	15.9	16.7	19.3
<b>Cambridge Canadian Dividend Fund</b>	<b>0.7</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
S&P/TSX Composite Total Return Index	-0.9	n/a	n/a	n/a	n/a	n/a	n/a
<b>Global Small Companies Fund</b>	<b>-3.1</b>	<b>2.6</b>	<b>9.3</b>	<b>10.5</b>	<b>9.4</b>	<b>12.2</b>	<b>12.6</b>
MSCI World Index	-0.3	8.8	15.0	13.7	12.2	12.6	14.4
<b>Cambridge Canadian Asset Allocation Corp Fund</b>	<b>0.1</b>	<b>2.9</b>	<b>4.9</b>	<b>4.7</b>	<b>6.2</b>	<b>6.6</b>	<b>8.3</b>
60% S&P/TSX, 40% Dex Universe Bond Total Return	-0.9	0.7	4.2	4.2	6.5	4.0	6.0
<b>Signature Global Resource Corp Class Fund</b>	<b>1.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	-2.3	n/a	n/a	n/a	n/a	n/a	n/a
<b>Signature Global Dividend Fund</b>	<b>-0.5</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	0.2	n/a	n/a	n/a	n/a	n/a	n/a