

Financial and Economic Notes

October 2022 vol. 181

Equity Markets

Canadian equities were not immune, but perhaps partially vaccinated against the weakness that spread across equity markets. Investors became more concerned with the lack of progress on inflation late in the quarter, which led to -1.4% return for the S&P/TSX. This was still notably better than the quarterly performance of its US and international peers given the Materials exposure and greater defensiveness across many of its sectors.

US equities experienced a good start to the quarter on strong corporate profits. However, the enthusiasm soured alongside persistent inflation and finished the quarter down 4.9% in USD. The strength of the US dollar more than offset the loss with US equities ending up 1.3% in Canadian dollars. On a sectoral basis, four sectors stood out. On the positive side, Consumer Discretionary (+4%) performed well, driven by Amazon and Tesla who both reported stronger financial results than expected. Energy (+2%) also stood out with stocks remaining resilient despite the pullback in the commodity price. On the negative side, Communication Services (-13%) remained under pressure, as concerns around ad spending cuts (Google & Facebook) and the increasingly competitive environment between telcos intensified. Real Estate (-11%) also had a difficult quarter as the surge in interest rates cooldown earnings prospects for the sector.

International equities remained under pressure finishing the quarter down 3.5% in Canadian dollars. Investors remain cautious about the situation in Europe, which continues to deal with an energy crisis that is hurting them disproportionately and creating more instability. Currency movements were elevated but had a negligible impact on the performance this quarter.

Highlights

Following a painful second quarter, investors were teased by an early quarter bounce across most asset classes during the third quarter.

Fixed Income Markets

The balancing act has begun as central banks start to move policy rates from accommodative into restrictive territory. The trade-off on this tightwire act is the need to reduce inflationary pressures while at the same time weakening economic growth as supply and demand forces recalibrate. Increase in the overnight rate and balance sheet reduction were principal themes throughout the quarter as central bankers renewed their commitment to addressing the rising prices, with indications that core inflation continues to remain well above target. The US Fed Chair, Jerome Powell, summarized this challenge in a speech in late August (Jackson Hole) where he stated: "Reducing inflation is likely to bring some pain to households and businesses." In September, both the Bank of Canada and US Federal Reserve increased rates by an expected 75 basis points, marking a total of 300 basis points in consecutive rate hikes over a span of six to seven months, and the most rapid move in policy rates since the days of Paul Volker in the early 1980's. In his remarks following the Fed Policy meeting, Powell focused on "the out-of-balance job market" and indicated that the timeline for the Fed to remain on this current path would be related to "how long it takes for wages to come down." These statements summarize the key challenges for central bankers in addressing inflation pressures, as lowering wages is achieved by slowing economic growth and reducing the demand for labour.

During the quarter, inflation pressures in Canada and the US remained elevated with year-over-year core CPI rates (excluding food and energy) of 4.8% (median) and 6.6%, respectively. Labour markets also remain tight with unemployment rates of 5.2% and 3.5% in both Canada and the US. The rapid pace of rate hikes will require time to take hold, slow economic growth, and weaken tight labour markets.

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Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of September 30, 2022

FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
ASSUMPTION / LOUISBOURG FUNDS							
Balanced Fund - RPP	-3.0	-11.8	-8.4	2.2	3.0	3.7	4.0
Multi-Index	-2.9	-13.0	-9.0	1.2	2.8	3.9	4.3
Canadian Dividend Fund	-5.8	-6.7	0.8	14.2	8.4	7.7	6.8
S&P / TSX Index	-4.3	-11.1	-5.4	10.1	6.6	6.7	6.5
U.S. Equity Fund (\$CAN)	-4.6	-11.5	-3.7	8.6	9.9	9.9	11.5
S&P 500 Index (\$ CAN)	-4.7	-17.2	-8.3	6.3	9.5	8.8	11.3
Money Market Fund	0.1	0.5	0.5	0.3	0.6	0.8	0.9
SCM 91 Day T-Bills	0.2	0.8	0.9	0.5	0.8	1.0	1.0
Fixed Income Fund	-0.6	-10.6	-9.6	-6.3	-2.4	0.2	0.5
SCM Universe Bond Index	-0.5	-11.8	-10.5	-7.0	-2.5	0.4	0.7
Growth Portfolio	-5.0	-9.3	-4.0	9.2	8.3	7.4	7.5
Multi-Index	-4.4	-14.0	-8.6	6.7	5.7	5.7	6.3
Balanced Growth Portfolio	-4.1	-9.1	-4.8	6.3	6.2	5.8	6.0
Multi-Index	-3.5	-13.1	-8.6	3.8	4.1	4.7	5.1
Balanced Portfolio	-3.4	-9.4	-6.2	3.5	4.1	4.1	4.4
Multi-Index	-2.5	-12.4	-8.9	0.3	2.0	3.4	3.7
Conservative Portfolio	-2.7	-9.8	-7.4	1.3	2.0	2.1	2.5
Multi-Index	-1.5	-11.8	-9.4	-3.2	-0.1	2.0	2.2
Canadian Small Capitalization Equity Fund	-6.4	-5.2	-2.3	21.1	15.6	10.8	7.2
BMO NB Small Cap Weighted Index	-7.1	-16.3	-13.8	11.5	6.5	3.0	2.4
SmartSeries Income Fund	-2.9	-9.7	-7.5	2.2	2.7	n/a	n/a
Multi-Index	-1.7	-12.4	-9.7	-2.8	0.4	n/a	n/a
SmartSeries 2020 Fund	-3.2	-10.0	-7.1	3.6	3.6	n/a	n/a
Multi-Index	-2.2	-12.8	-9.5	-0.8	1.7	n/a	n/a
SmartSeries 2025 Fund	-3.7	-10.5	-6.8	4.5	4.3	n/a	n/a
Multi-Index	-2.8	-13.4	-9.5	0.7	2.8	n/a	n/a
SmartSeries 2030 Fund	-3.9	-10.7	-6.7	5.2	4.7	n/a	n/a
Multi-Index	-3.0	-13.6	-9.4	1.6	3.3	n/a	n/a
SmartSeries 2035 Fund	-4.2	-11.1	-6.5	6.0	5.3	n/a	n/a
Multi-Index	-3.4	-14.1	-9.5	2.8	4.2	n/a	n/a
SmartSeries 2040 Fund	-4.5	-11.4	-6.4	6.7	5.7	n/a	n/a
Multi-Index	-3.8	-14.6	-9.5	3.9	4.9	n/a	n/a
SmartSeries 2045 Fund	-4.6	-11.6	-6.2	7.2	6.0	n/a	n/a
Multi-Index	-4.0	-14.8	-9.5	4.5	5.3	n/a	n/a
SmartSeries 2050 Fund	-4.8	-11.8	-6.2	7.6	6.1	n/a	n/a
Multi-Index	-4.2	-15.1	-9.6	5.1	5.7	n/a	n/a
SmartSeries 2055 Fund	-4.9	-12.1	-6.3	7.9	6.3	n/a	n/a
Multi-Index	-4.4	-15.3	-9.6	5.5	5.9	n/a	n/a
Momentum Fund	-9.7	9.6	5.9	13.3	20.5	14.0	15.4
S&P / TSX Index	-4.3	-11.1	-5.4	10.1	6.6	6.7	6.5
Preferred Share Fund	-7.5	-15.0	-13.4	13.4	8.1	0.7	n/a
S&P/TSX Preferred Share (TXPR) Index	-6.9	-15.3	-14.0	4.1	3.7	0.0	n/a

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FUNDS	1 MTH %	YTD %	1 year %	2 years %	3 years %	4 years %	5 years %
FIDELITY FUNDS							
Canadian Opportunities Fund	-2.3	-7.9	-4.7	12.8	15.2	15.5	13.9
S&P / TSX Small and Mid Cap Combined Index	-5.7	-11.0	-9.3	7.6	4.6	4.2	4.1
True North Fund	-3.4	-9.0	-3.2	11.9	9.6	9.8	9.3
S&P / TSX Index	-4.3	-11.1	-5.4	10.1	6.6	6.7	6.5
International Growth Fund	-5.0	-26.8	-22.9	-5.6	2.1	4.0	5.2
Overseas Blend	-5.3	-27.1	-24.4	-6.9	-0.3	1.0	2.6
Europe Fund	-4.6	-23.5	-20.1	-2.8	-2.1	-2.0	-0.8
MSCI Europe Index	-4.2	-22.6	-18.4	-0.8	-0.5	0.0	0.6
American Disciplined Equity Fund	-4.4	-18.1	-9.4	5.8	10.1	9.2	11.3
S&P 500 Index (\$CAN)	-4.7	-17.2	-8.3	6.3	9.5	8.8	11.3
NorthStar Fund	-3.6	-12.8	-12.5	4.1	8.1	5.4	5.3
MSCI AC World	-5.1	-19.1	-13.9	2.0	5.0	4.7	6.4
Monthly Income Fund	-3.1	-7.8	-4.4	5.9	4.7	6.0	5.4
Monthly Income Blend	-3.9	-13.1	-9.5	1.4	2.1	4.1	4.2
Canadian Asset Allocation Fund	-2.8	-9.5	-4.2	6.8	6.2	7.3	7.0
Can Asset Alloc Blend	-3.1	-11.2	-6.8	4.5	3.9	4.9	4.8
Far East Fund	-9.6	-33.6	-38.7	-18.5	-7.1	-3.6	-1.4
MSCI AC FE ex Jap (G)	-9.7	-24.5	-25.7	-11.9	-2.0	-1.9	-0.5
Emerging Market Fund	-6.7	-22.6	-22.7	-4.5	2.3	4.2	n/a
MSCI Emerging Markets (G)	-7.3	-20.5	-21.7	-6.2	-0.5	-0.2	n/a
NorthStar Balanced Fund	-1.3	-8.5	-7.9	1.8	4.9	5.0	n/a
Northstar Balanced Blend	-2.1	-12.8	-10.0	-1.8	2.0	3.7	n/a
CI FUNDS							
Signature Corporate Bond Fund	-1.9	-10.1	-9.6	-0.7	0.8	2.4	n/a
Multi-Index	-1.9	-11.9	-11.1	-3.4	-1.0	1.5	n/a
Signature Canadian Bond Fund	-0.6	-10.9	-9.8	-5.8	-1.2	1.5	1.5
SCM Universe Bond Index	-0.5	-11.8	-10.5	-7.0	-2.5	0.4	0.7
Signature High Income Fund	-4.3	-8.4	-3.5	8.9	5.0	6.3	6.0
Multi-Index	-4.0	-9.5	-4.4	5.5	2.0	4.8	5.0
American Value Fund	-3.8	-19.3	-8.9	10.3	8.3	7.6	9.7
S&P 500 Index (\$CAN)	-4.5	-16.9	-7.8	6.8	9.7	9.0	11.5
Cambridge Canadian Dividend Fund	-6.1	-9.9	-2.4	15.7	8.4	7.9	n/a
S&P/TSX Composite Total Return Index	-4.3	-11.1	-5.4	10.1	6.6	6.7	n/a
Cambridge Canadian Asset Allocation Corp Fund	-4.8	16.5	-12.2	-1.0	0.4	1.8	2.4
60% S&P/TSX, 40% Dex Universe Bond Total Return	-2.8	-11.3	-7.3	3.1	3.2	4.4	4.4
Signature Global Resource Corp Class Fund	-4.9	11.4	22.1	34.7	19.1	7.4	n/a
50%S&P/TSX Energy Total Return Index, 50% S&P/TSX Materials Total Return Index	-2.7	7.0	15.8	19.2	11.7	10.1	n/a
Signature Global Dividend Fund	-2.5	-10.2	-2.1	12.0	7.6	6.5	n/a
MSCI ACWI Global High Dividend Yield Total Return Index (CAD)	-3.0	-11.3	-5.7	4.7	2.2	3.4	n/a