

Alfred Lam, Senior Vice-President and Chief Investment Officer

CI Multi-Asset Management

## Market performance

While global economies were showing signs of slowing, stocks posted a solid performance during the second quarter of 2019. Equity markets overcame a bout of volatility in May that was triggered by concerns over the U.S./China trade war. However, the factor that overwhelmed any bad news was the increasingly dovish comments from central banks. The negative sentiment over slowing economic conditions turned positive as investors began to expect that the U.S. Federal Reserve would start cutting interest rates this year and that the European Central Bank will follow with its own version of stimulus – most likely quantitative easing (monetary policy whereby a central bank increases money supply to encourage lending and investment) as rates are already at zero. In other words, market participants decided that the trend of rising interest rates is reversing globally. Bonds rallied as investors changed from expecting rate hikes and quantitative tightening to expecting rate cuts and quantitative easing. It is difficult to believe that over US\$12 trillion of debts globally now provide investors with negative interest income (yields). Investors need to extend maturity to the very long term to generate yield. For example, the Austrian 100-year bond yields just 1.1%.

The U.S. dollar weakened against the Canadian dollar as the rate differential between the two countries narrowed. In Canadian dollar terms, the Canadian stock market outperformed the U.S., a rare occurrence in recent years.

Benchmark returns in % at June 30, 2019	1 year	3 years	5 years	Since fund inception*
S&P/TSX Composite Index	3.9	8.4	4.7	7.6
S&P 500 Index (C\$)	10.0	14.5	15.4	16.4
MSCI World Index (C\$)	5.6	12.0	11.1	12.5
FTSE Canada Universe Bond Index	7.4	3.7	4.1	4.5

\*Since fund inception relates to the inception of the CI ivari portfolios as at October 2009.

Source: Bloomberg Finance L.P., FTSE

## Portfolio performance

Across the portfolios, we continued to add to our overweight position in equities in the second quarter of 2019. In the U.S. equity portion, the hedge on the U.S. dollar added to relative performance in the quarter as expectations for additional rate cuts in the U.S. put downward pressure on the U.S. dollar relative to the Canadian dollar. Strong selection from our U.S. value managers also contributed, while exposure to small-cap stocks detracted. Within Canadian equity, exposure to the momentum factor partially offset weak security selection by managers of the underlying funds. Our allocations to emerging markets and dividend mandates detracted from relative performance in international equities. In the income portion, our government bond position appreciated in value as U.S. 10-year Treasury yields fell below 2%. (There is an inverse relationship between yields and prices).

In 2018, our portfolios were defensively positioned, central banks were hawkish and the Fed was hiking interest rates through December. Given these developments, we believed the growth phase of this current cycle was ending and a defensive positioning was prudent. The stock market correction during the fourth quarter reflected this concern and validated our thesis. However, central banks turned dovish following the sell-off, and apparently that is all that matters to stock market participants in the near term, even if economic and corporate fundamentals continue to deteriorate. In our view, it was unusual and probably inappropriate for central

# ivari Portfolio Commentary

Second Quarter – 2019



banks to change direction so dramatically and so quickly, but it is not up to us to judge. It was an unprecedented intervention and the portfolios have benefited from this tailwind.

*ivari CI Portfolios are available as Guaranteed Investment Portfolios within select ivari segregated funds contracts and as Managed Portfolio Index Interest Options within select ivari Universal Life Products. Segregated Fund Net Returns below are for the ivari Guaranteed Investment Funds product. Returns are after the MER has been deducted. The MER includes the management fee, the insurance cost for segregated fund guarantees, operating expenses and the applicable taxes of the fund. Policyholders do not pay for these expenses directly. The MER reduces the return of the investment. The Manager, at its discretion, may waive or absorb a portion of the operating expenses otherwise payable by a Fund class. These waivers may be terminated at any time by the Manager. MER and MER before waiver can be found in the ivari Segregated Fund Financial Statement under the section “Financial Highlights.” For details please refer to the Information Folder and contract, and to [www.ivari.ca](http://www.ivari.ca) for the returns on other products.*

Segregated fund net total returns in % at June 30, 2019	1 year	3 years	5 years	Since Inception**
ivari CI Conservative GIP	3.5	2.8	3.0	4.6
ivari CI Canadian Balanced GIP	3.4	3.5	2.5	4.7
ivari CI Balanced GIP	2.4	4.1	3.4	5.1
ivari CI Growth GIP	1.6	5.0	3.7	5.8
ivari CI Maximum Growth GIP	0.1	5.5	3.7	6.0

*Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value. Past results should not be construed as indicative of future performance. Actual fund performance is expected to vary.*

*On September 21, 2012, the Transamerica TOP GIPs began investing in a new portfolio managed by CI Investments Inc. The Transamerica TOP GIPs are now referred to as ivari CI GIPs.*

*\*\*Inception date: October 2009.*

## Outlook and positioning

The growth phase of the current economic cycle has been extended due to central banks' commitment to easing monetary policy. During the last 10 years, our global economic system was operating with over US\$10 trillion of extra capital provided by central banks. This new supply of money disrupted the normal demand for financial assets, and stock and bond prices have rallied in sync with the money supply for most of this period.

In a world of zero interest rates and growing money supply, what should investors do? Let's start by saying this is unusual. If you are saying it is not sustainable today, you probably said that 10 years ago as well. We have been living through an increasing amount of money chasing scarce resources. The value of money has been diluted with every dollar printed by central banks and it is depreciating versus the value of other assets. Holding cash is simply an unattractive option as you are almost guaranteed to have less purchasing power in the future, even if you earn some interest. It is possible for central banks to print a trillion dollars overnight, but it is impossible to construct a building or develop a company overnight.

We have progressively turned bullish on equities as central banks have signalled their intent to begin easing monetary policy. We expect the value of money to be diluted again, causing asset prices to increase. The opportunity cost of holding cash versus equities is very high, but is less of an issue versus bonds, which have become very expensive. We have repositioned our portfolios by trimming

government bonds and adding stocks. Even though our stock weight is higher than the benchmarks, the stocks we own are selected by the portfolio managers of our underlying funds and that gives us assurance there is a good margin of safety. We expect this to be maintained as long as central banks remain dovish.

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The comparisons presented are intended to illustrate the segregated fund's historical performance as compared with the historical performance of widely quoted market indices or a weighted blend of widely quoted market indices or another investment fund. There are various important differences that may exist between the segregated fund and the stated indices or investment fund, which may affect the performance of each. The objectives and strategies of the segregated fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices or investment fund. Indices are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices.

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