



Empire Life Multi-Strategy GIFs

QUARTERLY COMMENTARY

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Market Overview

2021 provided most equity investors with double-digit returns with U.S. equities once again leading the way higher. It was a similar story for the fourth quarter where most developed market indices ended the month with gains.

World Equities (\$CAD)	3 month	YTD	1 year	3 year	5 year	10 year
NASDAQ 100 TR	10.95	26.42	26.42	34.78	27.10	25.83
S&P 500 TR CAD	10.70	27.61	27.61	22.83	17.06	19.09
MSCI World GR	7.55	21.31	21.31	19.17	14.26	15.78
S&P/TSX Composite TR	6.47	25.09	25.09	17.52	10.04	9.14
MSCI ACWI GR	6.46	18.02	18.02	17.86	13.61	14.89
MSCI Europe GR	5.41	15.97	15.97	12.60	9.48	11.19
MSCI EAFE GR	2.44	10.82	10.82	11.14	8.76	10.90
MSCI Pacific Ex Japan GR	-0.36	3.89	3.89	6.99	7.14	9.22
MSCI EM GR	-1.53	-3.06	-3.06	8.47	8.95	8.17
MSCI Pacific GR	-2.98	2.01	2.01	8.51	7.48	10.43
MSCI Japan GR	-4.22	1.17	1.17	9.20	7.60	11.04
Nikkei 225 Average TR	-5.40	-5.18	-5.18	10.29	9.60	13.04
MSCI China GR	-7.78	-29.75	-29.75	10.11	12.41	12.22

Morningstar Research Inc., as of December 31, 2021

Bond investors did not fare as well for the year as rising bond yields pushed most fixed income indices into negative territory. In the fourth quarter, bonds performed well as lower yields provided some relief.

The recovery from the pandemic continued with strong levels of economic growth, supported by accommodative central banks and various government stimuli. The old adage that you can't fight the FED was very much the key driver of equity market returns over the course of the year.

That said, several headwinds emerged

Omicron — The initial market response to this new and highly contagious variant of COVID-19 was a quick selloff in the equity market, which soon reversed after signs emerged that this particular variant was likely to lead to more mild outcomes for most people. Despite the higher levels of transmissibility, markets reacted positively and quickly recovered losses to close the year near record highs. With the rapid spread of the variant, some regions have reinstated restrictions which are expected to slow economic activity. However, these restrictions are expected to be somewhat short-lived and a return to recovery is likely to continue.

Inflation — There was little doubt that inflation would be higher in 2021 than it was in previous years, but few really expected to see the dizzying levels we've experienced. Much of the chatter around inflation suggested that it would be transitory or more temporary in nature, eventually settling near historic levels. While this may still end up being the case, high levels of inflation have stuck around much longer than many had anticipated, putting pressure on central banks to remove stimulus more quickly.

Some of the price pressure has been driven by supply chain issues which have created shortages for many goods, while COVID-19 fears and supports have kept much of the services sector operating below levels experienced pre-pandemic. Inflation is widely expected to moderate over the year, however, with supply chain issues likely to persist for some time as the world recovers from the latest COVID wave, it could continue to be elevated for longer.

Central Bank tightening has become a focus of investors with markets expecting the Bank of Canada and the U.S. Federal Reserve to begin hiking their policy rates early this year. This expectation is being driven by persistent high inflation which has seen the central banks move up the pace of their bond-buying programs, opening the door to rate hikes. Markets are also expecting to see more hikes than were forecast even a few months ago. According to Bloomberg, on September 29, markets were expecting no hikes in the U.S. and one hike in Canada. On December 31, markets were pricing in five hikes in Canada and nearly 3 in the U.S.

This has seen a significant repricing of yields at the short end of the yield curve while leaving longer-dated bonds relatively untouched. For example, the Bank of Canada shows the Government of Canada 2-year bond yielded 0.53% on September 29, ending December 31 at 0.95%. In comparison, the Government of Canada ten-year bond had a yield to maturity of 1.51% on September 29 and ended the quarter 9 basis points lower at 1.42% on December 31.

The expectation is that as these bond-buying programs are wound down and with central banks no longer buying bonds at the same pace, yields at the longer end of the yield curve could start to rise. This has already started to happen in January. The yield on the Government of Canada ten-year bond has moved from 1.42% at year-end to 1.76% as of January 14. It has also occurred in the U.S., where the yield on the ten-year U.S. Treasury Bond has increased from 1.52% to 1.78%.

Increasing China Regulations — in 2021, the Chinese government introduced many restrictions on a range of industries including e-commerce, video games, and for-profit tutoring services. After these rules were implemented, Chinese shares sold off heavily, bringing emerging market indices down with them. Combined, China, Taiwan, and Hong Kong represent nearly half of the MSCI Emerging Markets Index. Morningstar reports that the MSCI China Index was down 29.8% for the year in Canadian dollar terms, while the MSCI Emerging Markets Index fell by 3.1%.

What additional measures will be implemented remains to be seen, but in the interim, it has made investing in China and by extension emerging market indices more uncertain.

Multi-Strategy GIF Performance

In this environment, the Empire Life Multi-Strategy GIFs were mixed, led by our **Empire Life Multi-Strategy U.S. Equity GIF** which benefitted from its active management and exposure to momentum.

Returns for Class K units at December 31, 2021	MER	Inception Date	3 month	YTD	1 year	Inception
Empire Life Multi-Strategy Canadian Equity GIF	2.73	Oct. 23, 2019	5.45	19.48	19.48	10.00
Empire Life Multi-Strategy US Equity GIF	2.86	Oct. 23, 2019	7.85	16.25	16.25	13.87
Empire Life Multi-Strategy Global Equity GIF	2.83	Oct. 23, 2019	5.84	11.25	11.25	9.86
Empire Life Multi-Strategy Global Conservative Portfolio GIF	2.39	Oct. 23, 2019	1.47	1.63	1.63	3.01
Empire Life Multi-Strategy Global Balanced Portfolio GIF	2.55	Oct. 23, 2019	3.02	4.28	4.28	4.64
Empire Life Multi-Strategy Global Moderate Growth Portfolio GIF	2.61	Oct. 23, 2019	4.15	7.40	7.40	6.90
Empire Life Multi-Strategy Global Growth GIF*	–	Jan. 18, 2021	–	–	–	–
Empire Life Multi-Strategy Global Growth Balanced Portfolio GIF*	–	Jan. 18, 2021	–	–	–	–

Source: Morningstar Research Inc., as of December 31, 2021. *Regulations restrict the presentation of performance figures until a fund reaches its one-year anniversary.

Outlook and Positioning

2022 is shaping up like it will be a continuation on the path towards normalization after the effects of the global pandemic. Central banks are widely expected to move policy rates higher throughout the year, which will likely see higher bond yields across the yield curve. This may result in some headwinds for equity markets as they adjust to the higher rate environment. However, positive economic growth may continue to help offset some of the pressure for equities. Overall, volatility is expected to remain high.

Heading into the new year, the Funds have been reducing exposure to higher growth areas of the equity markets and allocating the proceeds to value and low volatility. Within the Portfolio Funds there is a slight overweight to equities, while the fixed income portions continue to tilt towards corporate bonds for their higher yield and lower levels of interest rate sensitivity. We continue to watch for signs of stress in the credit markets and will add to government bond weights should that occur. The bond weight, particularly in the Empire Life Multi-Strategy Conservative GIF has a meaningful weight in short-term corporate bonds to help protect against rising bond yields, as they tend to be less affected by interest rates than longer-dated issues.

The Multi-Strategy GIFs with their diversified exposure across different investment strategies and styles are well-positioned for this type of environment. We continue to monitor and adjust the portfolios, tilting them towards the areas of opportunity and away from areas of concern, all the while staying true to the Multi-Strategy philosophy.

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