Empire Life Multi-Strategy GIFs

QUARTERLY COMMENTARY

DAVE PATERSON, CFA

September 30, 2021

Market Overview

In the poem "The Waste Land", author T.S. Eliot notes that April is the cruelest month, however, he clearly wasn't talking about the stock market. Historically, September has been the cruelest month, experiencing losses, more often than not. According to Bloomberg, over the past 25 years, the average return in the month of September for the S&P/TSX Composite Index has been a loss of 0.9%, while the S&P 500 has delivered an average return of -0.8% in Canadian dollar terms.

This past September certainly lived up to the billing as most equity markets experienced an up tick in volatility and ended the month in negative territory. Despite this rise in volatility, most of the major global equity markets posted gains in the quarter, led by Japan, which gained more than 7% in Canadian dollar terms. China was one of the worst performing markets falling more than 20% in the quarter after the government stepped in to implement sweeping policy changes including crackdowns on Internet companies, for-profit education, online gaming, and the property market. Performance of the MSCI Emerging Market Index struggled under the weight of the broad-based China sell-off, as China makes up approximately 40% of the index.

World Equities ($CAD)	3 month	YTD	1 year	3 year	5 year	10 year
MSCI Japan GR	7.11	5.62	16.15	7.21	8.93	10.82
MSCI Pacific GR	4.00	5.15	17.09	6.92	8.35	10.48
NASDAQ 100 TR USD	3.42	13.94	22.89	24.73	25.01	25.07
S&P 500 TR CAD	2.90	15.27	23.30	15.22	16.04	18.93
MSCI World GR	2.40	12.79	22.72	12.96	13.51	15.54
MSCI EAFE GR	1.95	8.18	19.78	7.41	8.53	10.74
MSCI ACWI GR	1.33	10.86	21.38	12.38	12.94	14.71
MSCI Europe GR	0.81	10.02	21.37	7.71	8.69	10.94
S&P/TSX Composite TR	0.17	17.48	28.02	11.07	9.64	8.84
MSCI Pacific Ex Japan GR	-2.17	4.27	19.44	6.15	7.07	9.65
MSCI EM GR	-5.85	-1.55	12.47	8.23	8.82	8.56
MSCI China GR	-20.56	-23.82	-22.70	9.95	12.26	13.67

Source: Morningstar Research Inc., as of September 30, 2021.

In addition to the China crackdown there were other themes that drove the markets in the third quarter. Vaccinations continued to roll out globally. Still, it wasn't enough to avoid a fourth wave as the highly transmissible Delta variant spread. By all accounts it appears the fourth wave is waning. However, as more nations ease restrictions and the colder weather returns to the Northern Hemisphere, the potential for further increases in cases remains high.

Inflation was another theme driving markets in the quarter. Data released in the quarter showed that inflation has been running higher than the targets set by Central banks. Central banks, led by the U.S. Federal Reserve have insisted that this higher level of inflation is temporary. However, it is now widely believed that inflation will run higher for longer than we had originally anticipated. In recent weeks there has been some concern over Stagflation, a period where inflation is high, economic growth is slowing, and unemployment remains high. While some may believe the risk of stagflation is being overblown, it is something worth paying attention to, particularly in an environment that has seen big increases in both oil and natural gas prices as we head into the winter season.

Central banks have been very accommodative since the onset of the pandemic and as the recovery continues, they must now turn their attention to how to reduce these temporary measures. The first step will be a reduction in bond purchases by the central banks. Some, like the Bank of Canada have begun to reduce their purchases, while the U.S. Federal Reserve is widely expected to start their tapering after their November meeting.

It should be noted that while tapering is the first step to normalizing monetary conditions, it doesn't mean that central banks will immediately begin raising their rates. At their August meeting Fed Chair Jerome Powell noted that the threshold to reduce asset purchases is different than the criteria to raise rates, meaning that policy rates are likely on hold for the next several meetings.

All this talk of inflation and rising rates put downward pressure on bond prices. The FTSE Canada Universe Bond Index fell by 0.5% in the quarter and U.S. and international bonds were both down approximately 0.1%.

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 Series K units at September 30, 2021	**3 month**	**YTD**	**1 year**	**Inception**
Empire Life Multi-Strategy Canadian Equity GIF	-0.8%	13.3%	21.1%	8.8%
Empire Life Multi-Strategy US Equity GIF	1.4%	7.8%	12.6%	11.7%
Empire Life Multi-Strategy Global Equity GIF	0.6%	5.1%	10.2%	8.0%
Empire Life Multi-Strategy Global Conservative Portfolio GIF	0.0%	0.2%	2.5%	2.6%
Empire Life Multi-Strategy Global Balanced Portfolio GIF	0.0%	1.2%	4.1%	3.6%
Empire Life Multi-Strategy Global Moderate Growth Portfolio GIF	0.3%	3.1%	6.9%	5.6%
Empire Life Multi-Strategy Global Growth* GIF	-	-	-	-
Empire Life Multi-Strategy Global Growth Balanced Portfolio* GIF	-	-	-	-

Source: Morningstar Research Inc., as of September 30, 2021. *Regulations restrict the presentation of performance figures until a fund reaches its one-year anniversary.

During the quarter, adjustments were made to the positioning of some of the Funds. Perhaps the most notable positioning change was in the Empire Life Multi-Strategy Global Equity GIF. The allocation to the **Vanguard FTSE Emerging Markets ETF (VWO)** was reduced from 5.5% to approximately 1.5% over the quarter. This reduction was done mainly because of the uncertainty created by the Chinese regulatory crackdowns. Morningstar reports that China makes up nearly 40% of the index the ETF is designed to track. As more clarity emerges and the portfolio model is re-run in the coming weeks, the position will be re-evaluated.

Outlook and Positioning

Looking ahead, the Multi-Strategy models will be re-run in the next few weeks and may result in some modest repositioning. The Multi-Strategy team expects that the pace of economic growth is likely to slow, interest rates are expected to face upward pressure as more central banks move to taper asset purchases and move policy rates higher, and overall market volatility is expected to remain high.

From an overall asset mix perspective, the Portfolios continue to have a very slight equity tilt. Within the fixed income portion of the Portfolios, there is a decided tilt toward corporate bonds over government bonds. The reasoning is corporate bonds tend to be less sensitive to the movement in interest rates, and if yields do move higher, they would be expected to preserve value better than government bonds. Also, in a flat yield environment, corporate bonds typically offer a higher yield to maturity, resulting in a higher return than government bonds.

The equity portion of the portfolios continue to provide diversified exposure across active, passive, and smart beta investment strategies across a range of investment styles and risk factors. There continues to be a high level of confidence with each of our active strategies, and our overall longer-term asset mix. From a tactical perspective, the equity allocations are tilting towards the quality factor, as well as momentum and low volatility as they have historically produced better than market returns near the top of a market cycle. The Funds also have some exposure to dividends, value, growth, and small/mid-caps to enhance the overall diversification.

The Funds are monitored regularly with a long-term outlook, and positions are adjusted based on the market environment. This helps us maintain our long-term focus, while short-term tactical tilts are used to help keep the portfolio mix well positioned for the market environment.

For more information on products visit empire.ca.

The Empire Life Insurance Company
259 King Street East, Kingston, ON K7L 3A8

Insurance & Investments – Simple. Fast. Easy.®
empire.ca info@empire.ca 1 877 548-1881

INV-3064-EN-10/21