EMPIRE LIFE
EMBLEM MODERATE GROWTH PORTFOLIO

Empire Life Investments®

Series A as of March 31, 2018

PORTFOLIO MANAGER

Empire Life Investment Team

COMPOUND ANNUAL RETURNS — Series A (%)

	1 mo	3 mo	YTD	1 yr	3 yr	5 yr	10 yr	Inception*
Fund Return	**-0.5**	**-3.1**	**-3.1**	**0.1**	**2.0**	**6.0**		**6.2**

*Inception date: January 9, 2012

Following a year of historically low volatility in global equity markets, volatility returned to more normal levels in the first quarter of 2018. Stronger U.S. economic data in February prompted fears of more aggressive interest rate normalization by the U.S. Federal Reserve. Later in the quarter, fears of trade wars further fueled market caution, and technology stocks were hurt by negative headlines surrounding Facebook and Amazon. Political tensions between the western world and Russia erupted towards the end the quarter following a nerve agent attack in Britain that was linked to Russia. This led to multiple western nations coordinating a series of Russian diplomat expulsions, which was met with a retaliatory move by Russia, expelling several western diplomats from its borders. Over the quarter, equity markets experienced declines of 0.8% for the S&P 500, 1.4% for the MSCI EAFE, and 4.5% for the S&P/TSX Composite. A decline in the Canadian dollar helped the S&P 500 and MSCI EAFE indices post positive returns of 2.0% and 1.3 %, respectively, in Canadian dollar terms. The FTSE TMX Canada Universe Bond Index held in with flat performance (0.1%); on the one hand supported by the rise in equity market volatility, but held down by a rising interest rate environment.

The United States appeared to be at the center of much of the period's volatility. The initial trigger came from stronger than expected U.S. wage growth data in early February. Bond yields rose sharply after the announcement, causing equity markets to sharply check their enthusiasm. The S&P 500 sank almost 9% in just over a week. An attempt to recover the losses played out over the next month, but was derailed as the threat of trade wars surfaced. The U.S. announced tariffs on steel and aluminum imports on the grounds of national security concerns. Although not overtly aimed at China, China was not on a list of numerous trade allies excluded from the tariffs. These were followed by further tariffs directly aimed at China as a penalty for U.S. intellectual property theft. In response, China threatened retaliatory tariffs on U.S. agricultural and metal products. To end the quarter, technology shares were negatively impacted by fears of much tighter regulations around the handling of user data following Facebook's failure to protect its users' personal data from misuse.

The Energy sector continued to drag on Canadian equity performance. Increased oil supply and a lack of transportation capacity weighed on Canadian oil prices, where it's pricing discount to U.S. oil remained at very wide levels. Increased crude-by-rail capacity over the coming quarters may alleviate some of the transportation backlog while new pipelines are built to provide longer term solutions. Canadian banks generally delivered good earnings results; Royal Bank delivered record first quarter profits in wealth management and capital markets, and TD bank recorded record profits from its U.S. retail business, a segment that will likely see significant benefits this year from the reduction in the U.S. corporate tax rate.

Both the Bank of Canada and U.S. Federal Reserve raised interest rates, the former early in the quarter and the latter late in the quarter. At the end of the quarter market expectations of further interest rate increases in 2018 point to another two quarter-point hikes by the Federal Reserve and the Bank of Canada. The U.S. Treasury yield curve continued to flatten (a potential signal of slower economic growth), ending the quarter with a yield spread lower than the long term average. However, an inverted yield curve (a potential signal of recession) requires further significant flattening of the yield curve.

In this environment of heightened volatility, the Emblem portfolios generally took advantage of equity market pullbacks to deploy portions of cash that had accumulated over the RRSP season into U.S. and international equities.