



Empire Life Multi-Strategy GIFs

QUARTERLY COMMENTARY

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Market Overview

If you were to only look at the final numbers for the third quarter, you might come away thinking that it wasn't such a bad quarter. In Canadian dollar terms, the S&P 500 Index finished the quarter up 1.3%, Canadian equities represented by the S&P/TSX Composite Index were down 1.4%, International stocks represented by the MSCI EAFE Index were down 3.4%, and global stocks as measured by the MSCI World Index were flat.

World Equities (\$CAD)	3 month	YTD	1 year	3 year	5 year	10 year
NASDAQ 100 TR USD	1.81	-26.41	-18.35	14.62	16.12	19.85
S&P 500 Index TR	1.32	-17.18	-8.32	9.51	11.31	15.50
MSCI World Index GR	0.04	-18.56	-12.42	6.37	7.85	12.38
MSCI All Country World Index GR	-0.63	-18.78	-13.54	5.53	6.96	11.50
Nikkei 225 Average TR	-0.85	-20.44	-24.74	-0.71	3.75	10.23
S&P/TSX Composite TR	-1.41	-11.14	-5.39	6.59	6.54	7.30
MSCI Japan Index GR	-1.49	-19.62	-23.01	-1.08	1.63	8.75
MSCI Pacific Index GR	-1.98	-16.89	-19.37	-0.66	2.02	7.92
MSCI Pacific Ex Japan GR	-2.86	-11.53	-11.85	-0.06	2.61	6.53
MSCI EAFE Index GR	-3.38	-20.33	-18.38	-0.15	1.54	7.69
MSCI Europe Index GR	-4.25	-22.14	-17.92	0.07	1.24	7.58
MSCI Emerging Markets Index GR	-5.64	-20.48	-21.69	-0.49	0.43	4.86
MSCI China Index GR	-18.47	-30.28	-35.71	-5.43	-4.15	7.50

Source: Morningstar Research Inc., as of September 30, 2022

However, those headline return numbers hid some meaningful volatility. Many equity markets rallied strongly in July on hopes that central banks would be looking to cut interest rates sooner than planned as the global economy slowed. That optimism could not last through August. Federal Reserve Chairman Jerome Powell made it clear that the central bank would hold a restrictive policy stance for the foreseeable future to reduce inflationary pressures, effectively putting this notion of a Fed Pivot to rest. Equity and bond markets sold off meaningfully, with higher interest rates a near certainty.

Fixed-income results were mixed, with Canadian bonds ending the quarter higher while non-Canadian bonds finished lower.

Bond Index Name	3 month	YTD	1 year	3 year	5 year	10 year
FTSE Canada LT Bond	1.51	-20.96	-17.20	-6.09	0.09	1.84
FTSE Canada Real Return Bond	0.89	-16.66	-11.33	-2.04	1.46	0.82
FTSE Canada All Government Bond	0.62	-12.15	-10.73	-2.91	0.43	1.40
FTSE Canada Universe Bond	0.52	-11.78	-10.48	-2.51	0.66	1.65
FTSE Canada All Corp Bond	0.23	-10.76	-9.80	-1.42	1.27	2.34
FTSE Canada ST Bond	-0.31	-4.69	-5.16	-0.15	0.93	1.32
Bloomberg Global High Yield	-2.74	-19.15	-19.72	-3.29	-0.98	2.66
Bloomberg US Agg Bond TR USD	-4.75	-14.61	-14.60	-3.26	-0.27	0.89
Bloomberg Gbl Agg Ex US TR USD	-8.85	-23.88	-24.77	-7.78	-4.03	-2.39

Source: Morningstar Research Inc., as of September 30, 2022

The U.S. dollar continued its march upward, closing at 1.38 on September 30, up from 1.29 on June 30. It's not just the Canadian dollar that has lost ground to the greenback, but most other currencies have also trailed. The Dollar Index Spot, which measures the average exchange rate of the U.S. dollar compared to major world currencies, gained 7% in the third quarter and is up 17% year-to-date. Higher interest rates and a very strong U.S. dollar have been headwinds to the global economy, particularly the emerging markets, which have historically struggled when the U.S. dollar is high.

With the war in Ukraine intensifying, Europe's outlook remains weak. An ongoing energy crisis, persistently high inflation and fears about economic growth weighed on European stocks.

Multi-Strategy GIF Performance

It was another challenging quarter for investors, with most global equity markets ending the quarter in negative territory. The Empire Life Multi-Strategy GIFs were not immune, with all but one fund ending the month lower.

The best-performing fund was the **Empire Life Multi-Strategy U.S. Equity GIF** which gained 0.2%. It benefitted from exposure to actively managed dividend-focused strategies that outperformed the S&P 500 Index. The **Empire Life Multi-Strategy Global Conservative Portfolio GIF** ended the quarter down 1.4%, with its core Canadian Bond exposure contributing the most to its overall performance in the quarter. At the same time, high-yield bonds were the largest detractor.

Despite the continued focus on interest rates and overall levels of market volatility, growth strategies outperformed the broader market. The **Empire Life Multi-Strategy Global Growth GIF** benefitted from its allocation to high growth strategies with active mandates from Fidelity and T. Rowe Price combined with passive growth strategies from Vanguard and iShares, contributing to overall performance.

As we head into the year's final quarter, we maintain a more defensive positioning within the Multi-Strategy Funds.

Returns for Class K (75/75) units at Sept. 30, 2022	MER	Inception Date	3 month	YTD	1 year	Inception
Empire Life Multi-Strategy Canadian Equity GIF	2.78	Oct. 23, 2019	-2.66	-11.66	-6.85	2.93
Empire Life Multi-Strategy US Equity GIF	2.90	Oct. 23, 2019	0.18	-17.83	-11.38	3.04
Empire Life Multi-Strategy Global Equity GIF	2.79	Oct. 23, 2019	-1.41	-19.54	-14.84	-0.39
Empire Life Multi-Strategy Global Conservative Portfolio GIF	2.39	Oct. 23, 2019	-1.35	-13.10	-11.82	-2.54
Empire Life Multi-Strategy Global Balanced Portfolio GIF	2.58	Oct. 23, 2019	-1.45	-15.69	-13.14	-2.39
Empire Life Multi-Strategy Global Moderate Growth Portfolio GIF	2.64	Oct. 23, 2019	-1.48	-17.34	-13.90	-1.49
Empire Life Multi-Strategy Global Growth GIF	2.97	Jan. 18, 2021	-0.13	-25.70	-21.55	-10.15
Empire Life Multi-Strategy Global Growth Balanced Portfolio GIF	2.61	Jan. 18, 2021	-0.54	-19.42	-16.85	-8.52

Source: Morningstar Research Inc., as of September 30, 2022

Outlook and Positioning

There are many challenges on the horizon for investors and the economy. Inflation remains at levels not seen in decades. Central banks worldwide continue to reaffirm their commitment to bringing prices under control regardless of the damage caused to the broader economy. Despite some signs of slowing economic activity, the job market remains strong, particularly in the U.S. If the job market can remain as resilient as it has been, there is a chance that the U.S. Federal Reserve may be able to avoid a deep recession.

Corporate earnings in the second quarter were stronger than anticipated, which makes the upcoming third-quarter earnings season one to watch. Questions remain about the impact of higher rates and rising prices on corporate earnings.

There are still some concerns about China's zero-COVID policy, which is seeing increased lockdowns as the case counts are rising across the country. These lockdowns can potentially disrupt the global supply chain, which has been on the mend for most of the year.

Europe has its own challenges, not the least of which is an energy shortage as we head into the winter season. Without demand reduction, the possibility of disruption remains high.

Given the above, it is likely that volatility in both equity markets and fixed-income markets will remain high. In periods of high volatility, more diversified portfolios that invest in a mix of asset classes, geographies, and investment styles are typically better positioned because they offer the potential resiliency for a broader range of possible outcomes. The Empire Life Multi-Strategy GIFs are well diversified by design with an eye on managing overall portfolio risk, making them well-positioned for this type of uncertain environment. We will continue to monitor and adjust the portfolios based on the market conditions and outlook.

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