

Key Takeaways

- Tactically reduced cash, increased bonds

Rationale:

Events have moved very quickly in bond markets. In the span of about seven months, the U.S. Federal Reserve (the "Fed") has gone from increasing interest rates, to holding interest rates steady, and now market expectations are for multiple rate reductions over the remainder of the year.

Looking back to 2018, the Fed and the Bank of Canada raised rates multiple times under the backdrop of strong economic growth. By October, expectations were that Fed hiking cycle would continue into 2019, with the market expecting three more hikes in 2019.

In January of this year, in light of slowing global growth and muted inflation, the Fed began to shift its policy stance from hiking mode to pause mode citing the need to be patient. As the year progressed, downside risks surrounding trade tensions and global growth increased. In June, the Fed announced they would be open to additional rate cuts to sustain growth. The market is now pricing-in at least 75 basis points of interest rate cuts by the end of the year.

The market also expects the European Central Bank to cut interest rates to combat risks of not meeting their inflation targets. This leaves the Bank of Canada as an outlier; overall market expectations are for policy interest rates to hold at current levels to the end of 2019. However, the resulting rise in the Canadian dollar and its negative effect on trade may push the Bank of Canada to join the other central banks in lowering interest rates.

With this rapid shift in sentiment, the Emblem Portfolios tactically deployed a portion of its cash holdings into bonds (as detailed in the following charts).

Empire Life Emblem Portfolios: Asset Allocation Update

Diversified Income Portfolio Change in Asset Mix*

Cash					-4.0%
Bonds					4.1%
Canadian Equity					0.0%
U.S. Equity					-0.1%
International Equity					0.0%

	Cash	Bonds	Canadian Equity	U.S. Equity	International Equity
resulting asset mix	4.4%	72.8%	12.5%	6.2%	4.1%
neutral asset mix	80%		10%	5%	5%

Conservative Portfolio Change in Asset Mix*

Cash					-2.4%
Bonds					2.5%
Canadian Equity					0.0%
U.S. Equity					-0.1%
International Equity					-0.0%

	Cash	Bonds	Canadian Equity	U.S. Equity	International Equity
resulting asset mix	5.4%	57.5%	22.1%	9.2%	5.8%
neutral asset mix	65%		25%	5%	5%

Balanced Portfolio Change in Asset Mix*

Cash					-1.0%
Bonds					1.1%
Canadian Equity					0.0%
U.S. Equity					-0.1%
International Equity					0.0%

	Cash	Bonds	Canadian Equity	U.S. Equity	International Equity
resulting asset mix	6.6%	42.4%	29.9%	12.2%	8.9%
neutral asset mix	50%		35%	7.5%	7.5%

Moderate Growth Portfolio Change in Asset Mix*

Cash					-1.8%
Bonds					1.8%
Canadian Equity					0.0%
U.S. Equity					-0.1%
International Equity					0.1%

	Cash	Bonds	Canadian Equity	U.S. Equity	International Equity
resulting asset mix	6.3%	27.5%	41.5%	15.0%	9.7%
neutral asset mix	35%		45%	10.0%	10.0%

Growth Portfolio Change in Asset Mix*

Cash					-2.6%
Bonds					2.6%
Canadian Equity					0.1%
U.S. Equity					-0.1%
International Equity					0.1%

	Cash	Bonds	Canadian Equity	U.S. Equity	International Equity
resulting asset mix	5.7%	12.5%	53.9%	17.0%	10.9%
neutral asset mix	20%		60%	10.0%	10.0%

Aggressive Growth Portfolio Change in Asset Mix*

Cash					-0.1%
Bonds					0.0%
Canadian Equity					0.2%
U.S. Equity					-0.2%
International Equity					0.1%

	Cash	Bonds	Canadian Equity	U.S. Equity	International Equity
resulting asset mix	8.5%	0%	55.3%	24.4%	11.8%
neutral asset mix	0%		75%	12.5%	12.5%

*change in asset mix from July 18, 2019 to July 22, 2019

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