Balanced 60/40 Fund.

Quarterly Commentary, Q2 2024 — Class O

A message from SEI to investors

SEI has cautioned that Canada's economy may face challenges. Although growth, business and consumer sentiment has been subdued, a recession has not yet occurred.

Perhaps the most noteworthy news of the quarter was the Bank of Canada's (BoC) decision to cut its target interest rate by 0.25%. It was the first BoC rate cut since 2020, and the first among G7 central banks in this cycle. However, monetary policy easing has fallen far short of markets expectations. While inflation has improved in the post-COVID years, inflationary pressures are still above historical norms.

Poor productivity growth is another ongoing challenge. Inflation has eased, growth has held up better than expected, and consensus expectations are for an improvement in economic activity going into 2025. On the other hand, recent employment data indicates that labour markets continue to soften. Looser monetary policy in the context of poor productivity growth means a greater-than-usual risk of inflation reaccelerating late in 2024.

For a smaller, open economy such as Canada's, activity outside the country's borders is impactful. Recent BoC research indicated that U.S. economic developments have an outsized impact on bond markets in certain smaller, open economies. Moreover, a recession-prediction model for Canada selected not only domestic bond and equity markets variables, but also measures of U.S. economic activity and inflation.

If and when the U.S. Federal Reserve (Fed) finally lowers its policy interest-rate, what effects might that have on consumer sentiment, credit, and activity? And what impacts might the BoC's rate cut have on domestic activity? The Fed, the BoC, and their counterparts have to thread a needle between continued progress on inflation and preventing unnecessary harm to the economy. While inflation has abated somewhat, economic uncertainty remains. For investors, the best response to this uncertainty is to stay diversified, no matter how much anxiety they might feel.

For investors, the best response to economic uncertainty is to stay diversified, no matter how much anxiety they might feel.

Market Commentary

Despite expected challenges, Canadian financial markets continued on a resilient path, shaped by stronger than expected economic activity as well as a dovish shift by the BoC as inflation continues its downward trajectory towards the target rate

The Canadian economy maintained a moderate growth trajectory, with real gross domestic product (GDP) posting an annualized 1.7% gain, driven by a strong 3% annualized increase in consumer spending. While the consumer has been a primary driver for economic growth in the first half of 2024, other segments of the economy are expected to lead in the coming quarters. Although the BoC made a dovish policy shift with the first rate cut of the cycle, higher borrowing costs are expected to begin to weigh more heavily on the consumer. A more stabilized interest rate environment created an opportunity for investors to extend duration in their investment portfolios. As inflation rates continued to decrease closer to the BoC's target, real return bonds underperformed the broader fixed income market.

Canadian equities lagged their U.S. and global counterparts, posting slightly negative results. Canadian small-cap companies slightly outperformed large caps as the Canadian market did not benefit from the artificial intelligence (AI) hype similar to some mega-cap U.S. tech stocks. Small caps were also boosted by a decreased interest rate burden on their balance sheets as the BoC made a dovish shift in their policy rate. European stocks experienced increased volatility due to heightened political uncertainty and managed to post a slightly positive return. Emerging markets delivered strong returns as countries like China and Taiwan benefitted from increased government stimulus and high exposure to the technology sector.

Portfolio Update

The Balanced 60/40 Fund returned 1.3% for the quarter.

Canadian fixed-income markets advanced slightly. Positioning (overweight corporates, underweight Federal and Provincial bonds) contributed to positive relative return. Overweights to financials, energy, securitized, real estate and industrials all added value.

A select number of mega-cap growth stocks—in particular those with exposure to the AI trend—led U.S. large companies higher. Exposure to value hurt relative performance, as did an underweight to mega-cap growth stocks.

Canadian equities were slightly negative. Selection in financials, information technology, and energy helped positive relative performance, along with an underweight to diversified banks.

Balanced 60/40 Fund.

Quarterly Commentary, Q2 2024 — Class O

Performance

Cumulative Returns (%)				Annualized Returns (%)						Calendar Year Returns (%)				
1 Mo	3 Mo	6 Mo	Ytd	1 Yr	3 Yr	5 Yr	10 Yr	Since incept	Inception date	2023	2022	2021	2020	2019
0.7	1.3	6.5	6.5	11.8	4.0	6.4	6.2	6.3	07/05/01	10.6	-8.7	11.7	8.2	14.7

Questions? Comments? Please speak with your financial advisor.

Find out more about SEI at seic.com.

Performance shown is for Class O units, net of the Fund's operating expenses. Performance does not reflect management fees payable to SEI and any advisory fees that may be payable to the dealer. The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values of the Portfolio or Funds or returns on investment in the Portfolio or Funds.