Income 40/60 Fund.

Quarterly Commentary, Q1 2024 — Class F

A message from SEI to investors

At the end of the first quarter, the Canadian economy faced similar economic circumstances as most global economies albeit with a few unique Canadian factors such as immigration dynamics and household debt levels. Overall economic activity and sentiment held up better than consensus expectations, while inflation continued to decline.

As of February, inflation declined to just above the Bank of Canada's (BoC's) target range of 1% to 3%. However, the BoC is not yet comfortable with inflation to begin cutting interest rates. Rate markets toned down end-of-year rate-cutting expectations that SEI believed were far too dovish. The BoC took a wait-and-see approach at its March meeting and indicated it would pay close attention to supply-and-demand balance, corporate pricing behaviour, inflation expectations, and wage growth relative to productivity.

Supply-demand imbalances appear to be improving although a rebound in energy prices could slow progress. Still, inflation expectations and wage growth relative to productivity could delay quantitative easing.

Meanwhile, 2023 wage growth was above pre-COVID levels against a backdrop of declining productivity. Improved productivity growth would help the inflation outlook and give the BoC more room to cut interest rates. Nevertheless, business investment has been lackluster, and businesses are focusing investments on maintaining existing capacity.

Given this outlook, the BoC's more patient approach to cutting rates is understandable. Tepid economic data, business, and consumer sentiment could mean that the economy avoids recession in 2024. With inflation still above target, markets now expect a 0.75% decrease in the BoC's target rate this year. In this environment investors should stick to their long-term strategy, seeking to take advantage of diversification benefits and employing active management where appropriate.

In this environment investors should stick to their long-term strategy, seeking to take advantage of diversification benefits and employing active management where appropriate.

Market Commentary

Canadian financial markets navigated a complex economic landscape, influenced by both domestic factors and broader global trends. The quarter was marked by moderated growth, reflecting a cautious optimism among investors tempered by underlying economic challenges.

The Canadian economy showed signs of slowing, with growth projected at a modest pace. Consumer spending was anticipated to slow, reflecting the pressure of past interest rate hikes and a cautious outlook among Canadian households. The BoC's policy rate, after reaching peaks in 2023, was expected to stabilize, and created a more balanced risk environment for Canadian fixed income assets. With the BoC pausing its rate hikes, the pressures on bond yields eased somewhat, allowing for cautious optimism in extending bond durations within portfolios. As inflation continued to subside, real return bonds underperformed the broader Canadian fixed income asset class. U.S. high yield fixed income was the strongest performer within the fixed income sleeve as positive economic surprises in the U.S. allowed credit spreads to continue to narrow.

The equity markets entered 2024 on a positive note, buoyed by a strong performance at the end of 2023 and optimistic projections for the year. Canadian equities lagged U.S. large cap and global equities, as the majority of the strongest performers were U.S. mega-cap technology companies. Although Canadian small caps lagged their U.S. counterparts, they narrowly outperformed Canadian large cap companies over the quarter, which could be attributed to lower expected interest rates being more favourable for the balance sheets of small companies. Emerging markets equities were the laggard in global equities, posting a modestly positive performance despite the backdrop of enduring geopolitical tensions and a lackluster performance from the Chinese economy.

Portfolio Update

The Income 40/60 Fund returned 3.1% for the quarter.

Canadian fixed-income markets fell slightly. However, an overweight to corporate bonds added value as it outperformed both Federal and Provincial bonds.

Global markets advanced as markets anticipated favourable economic conditions. However, exposure to low volatility and value stocks detracted as investors chased riskier growth stocks and neglected more conservative value stocks.

Short-term bonds saw muted results for the quarter. Key contributors to positive performance included sizeable overweights to financials, energy, and communications, along with underweights to Federal and Provincial sectors.

Income 40/60 Fund.

Quarterly Commentary, Q1 2024 — Class F

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
1.6	3.1	9.5	3.1	7.5	3.1	3.4	4.0	4.4	01/09/06	6.7	-6.2	6.8	3.2	9.3

Questions? Comments? Please speak with your financial advisor.

Find out more about SEI at seic.com.