NEI Balanced Yield Portfolio

Q4 2023 Commentary

Performance

The Fund (Series I) was in line with its blended benchmark over the quarter.

The final quarter of 2023 delivered a welcome Christmas present for investors. After the slight reality check in the first few weeks of the quarter, the remainder of the period saw strong returns across most major asset classes. The central banks' indication that the tightening cycle has likely come to an end and the possibility of interest rate cuts in 2024 boosted almost all markets.

During the quarter, both fixed income and equities delivered strong returns. The end of rate hike fears advanced both growth and value stocks. Fixed income markets were positive across the board. Expectations of early central bank cuts, tightening spreads and a weakening dollar supported positive returns.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Balanced Yield I	7.21	4.23	7.37	7.37	3.62	5.77		5.64
NEI Balanced Yield A	6.60	3.04	4.94	4.94	1.28	3.35		3.00
NEI Balanced Yield F	6.93	3.69	6.26	6.26	2.56	4.63		4.27
Benchmark 1: 40% BBg Global Aggregate CAD Hedged, 45% MSCI ACWI, 15% S&P TSX	7.23	5.43	12.35	12.35	3.28	6.55		5.68

[1]Source: Morningstar. As of Dec 31, 2023. The benchmark since inception return in the table is calculated as of the inception date of Series A. Since inception benchmark returns for Series F and Series I are 5.66 and 5.93, respectfully.

On March 1, 2023 the fund benchmark was changed. Prior to this date, the fund benchmark was 50% Bloomberg Barclays Global Aggregate Index (C$ hedged), 35% MSCI World NR Index (C$) and 15% S&P/TSX Composite TR Index.

Portfolio commentary

The NEI Balanced Yield Portfolio (Series I) returned 7.21%. In comparison, its blended benchmark returned 7.23%.

The Portfolio underperformed over the last 3-month period mainly as manager selection detracted from performance, which was offset partially by out-of-benchmark allocations. On Benchmark Misfit: out-of-benchmark allocations to Canadian Bonds, US Dividend, Global Dividend and Global Equity contributed to performance while the allocation to Investment-grade Bonds, Global High Yield Bonds, International Equity, and Infrastructure detracted from performance. On Manager Selection: Clean Infrastructure, Global High Yield added the most to performance, while Global Dividend and US Dividend underperformed.

Outlook

We continue to expect the effects of the monetary tightening to weigh on the economy sometime in 2024. Although the U.S. is still resilient, we are expecting further easing in the labour markets and slowdown in consumer spending to turn from a tailwind into a headwind for economic growth. That said, U.S. continues to be the strongest region relative to other developed markets in terms of growth.

Commented [LZ1]: Do we now use "we" when it really is us doing the talking?

The end of the unprecedented monetary tightening cycle is very near—if it isn't here already—and that provides a great entry point for fixed income investors and those with balanced portfolios. Positive real yields are starting to make the income side of the equation for bonds very attractive, plus expectations for rate cuts later in 2024 will likely add capital appreciation in the years ahead. Within our own strategic asset allocation, we are favouring high yield credit segment of the market given its attractive risk-adjusted return profile amongst asset classes. Generally speaking, the Fixed Income universe is much more attractive at this point compared to the beginning of 2023.

On the equities side we are cautious about the impact of slowing global growth on corporate earnings, coupled with valuation levels that is commensurate with the assumption of a soft landing. However, the potential easing in policy stance typically creates a very constructive environment across risk assets, therefore we are maintaining a rather neutral stance in asset allocation positioning. In manager selection, we prefer managers that focus on high quality companies that offer stability and growing dividends, especially in some regions and sectors where valuations are more reasonable on a relative basis.