NEI Select Balanced RS Portfolio

Q2 2024 Commentary

Performance

The Fund (Series I) underperformed its blended benchmark over the quarter.

Global equity markets advanced by 2.87% in the second quarter, as measured by the MSCI All-Country World Index, driven by robust corporate earnings, easing inflation concerns, and resilient economic data from major economies. Excluding the US, global markets returned 0.96%, reflecting slower growth in Europe and Asia. In Canadian dollar terms, the MSCI EM NR Index (CAD) led with a 6.03% return, while the S&P/TSX Composite TR Index remained the weakest, returning -0.64%, impacted by weaker oil prices and a slowing domestic economy.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Select Balanced RS I	1.94	6.83	6.83	12.43	3.32	6.05	N/A	6.26
NEI Select Balanced RS A	1.35	5.63	5.63	9.88	0.96	3.60	3.84	N/A
NEI Select Balanced RS F	1.63	6.20	6.20	11.09	2.07	4.74	5.00	N/A
Benchmark 1: 40% FTSE TMX Can Universe, 15% TSX, 45% MSCI ACWI	2.07	7.56	7.56	13.61	4.26	6.25	6.24	N/A

[1] Source: Morningstar. As of June 30, 2024. Since inception is only provided for Funds with less than 10 years of performance. Since inception benchmark returns for Series I is 6.35.

On June 1, 2015 the fund benchmark was changed. Prior to this date, the fund benchmark was 50% FTSE Canada Universe Bond Index, 25% S&P/TSX Composite TR Index and 25% MSCI World NR Index (C$).

On March 1, 2023 the fund benchmark was changed. Prior to this date, the fund benchmark was 50% FTSE Canada Universe Bond Index, 15% S&P/TSX Composite TR Index and 35% MSCI World NR Index (C$).

Portfolio commentary

The NEI Select Balanced RS Portfolio (Series I) returned 1.94%. In comparison, its blended benchmark returned 2.07%.

The Portfolio underperformed over the last 3-month period as manager selection and out-of-benchmark allocations detracted from performance, while asset allocation had a positive impact. On Asset Allocation: an underweight allocation to Canadian equities and an overweight allocation to global equities contributed positively to relative performance. On Benchmark Misfit: Allocations to global bonds and international equities detracted from performance while US high yield, Canadian Small Cap equities, US equities and emerging markets equities added to performance. On Manager Selection: The global and Canadian bond funds, Global Equity, Emerging Markets and Clean Infrastructure Funds outperformed their benchmarks contributing positively, while Global High Yield, Global Dividend and Global Growth underperformed their benchmarks.

Outlook

Economic growth in the US continued to surprise to the upside, supporting the soft-landing and no-landing narrative and pushed equity markets around the world to new record highs. While equity investors welcomed strong economic data, it was a more challenging period for fixed income investors. Stickier inflation and resilience in economic activity have shifted market expectations of rate cuts. Inflation has been moderating but the rate of moderation has recently stalled. Nevertheless, it is expected to continue fall to levels that would allow central banks to cut interest rates. The Bank of Canada and the European Central Bank (ECB) kicked off the easing cycle with their first rate cuts in May, and we are expected to see two more by year end from each. At the same time, there is considerable uncertainty regarding the timing of Fed rate cuts, with projections ranging from two cuts starting in September to no cuts at all this year.

US mega cap companies have dominated stock market performance due to their superior earning growth profile. Looking out to 2025, this earnings gap is expected to normalize as mega-cap company earnings growth rates slow and non-mega-cap company earnings start to rise. As a result, we believe that stock market performance will broaden. With sectors such as utilities, consumer staples and health care at the bottom end of their historical valuation range, we suspect that investors may find rotating to more defensive sectors an attractive way to preserve and grow capital.

Compared to the U.S., equity market valuations in Canada, Europe and elsewhere are more reasonable and could see corporate earnings growth recovering by well into double digits in 2025. We believe the U.S. may continue to deliver strong earnings growth. However, leading indicators of industrial production and manufacturing output are pointing to a rebound in growth in both Canada and Eurozone at the start of Q2 and these regions may outperform the U.S. over the near term through a combination of re-acceleration of earnings growth and multiple expansion.

We believe long-term outlook remains solid. Earnings growth rates over the next three years for U.S., Canada and Europe are expected to remain consistently higher than earning growth rates that we have seen over the past three years. Inflation is set to normalize to central bank longer-term target rates, which should provide stability to bonds. As a result, we believe long-term investors will be well served by riding out any near-term volatility in the markets and to use pull backs as a buying opportunity.