Canadian DB pension plan quarterly returns tied for lowest in three decades

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Geo-political climate, interest hikes and other economic concerns weigh on performance

TORONTO, July 29, 2022 /CNW/ - Canadian pension plans delivered negative returns in public market asset classes across the board this past quarter, according to the RBC I&TS All Plan Universe. Global economic health concerns, stock market selloffs and rising bond yields weighed heavily on defined benefit (DB) pension plan assets, which decreased by 8.6% for the second quarter of 2022, bringing year-to-date total returns to -14.7%.

This was the most significant decline since Q3 2008, when assets also fell by 8.6%, at the time breaking the record for the lowest quarterly return RBC had ever reported since it began tracking Canadian DB plan performance and asset allocation in 1994.

"Uncertainty in the global economic landscape – particularly surrounding the war in Ukraine, substantial inflation, higher interest rates imposed by the central banks across the globe and a new strain of Covid-19 – contributed to this outcome," said Niki Zaphiratos, Managing Director, Asset Owners, RBC Investor & Treasury Services.

"The uptick of long-term bond yields, however, actually improved plans' solvency ratios," continued Zaphiratos. "While this is good news for plan sponsors, investors need to remain cautious, given economists' warnings around the prospects for more interest rate hikes over the second half of the year and the resultant negative impact on the global economy."

Global equities lost 12.2% for Canadian plans in Q2 and were down 18.5% on a year-to-date basis. In comparison, the MSCI World Index returned a somewhat lower -13.4% over the quarter, with notable weakness in sectors such as consumer discretionary (-21.3%), information technology (-19.2%) and communication services (-16.8%). There was a significant spread in performance of nearly 10% between global growth and value stocks over the quarter. The MSCI World Growth index plummeted -18.6% in Q2 (-27.3% YTD), whereas the MSCI World Value index saw a more moderate decline of -8.7% for the quarter (-10.3% YTD).

Canadian equities kept pace with their global counterparts and again outperformed the benchmark, losing 11.3% for the quarter (-8.1% YTD). The TSX Composite Index lost 13.2% over the quarter (-9.9% YTD).

"Though the Canadian equity market has benefitted from a large exposure to energy stocks (26.2% year-to-date), it lost ground over the quarter, as sectors such as financials and materials were beaten down due to concerns over high interest rates and slow economic growth," commented Zaphiratos.

Plans returned -9.8% over the quarter in the Canadian fixed income asset class and were down 19.0% on a year-to-date basis. As the central banks continued to move away from their ultra-accommodative policies, yields rapidly increased across the curve. Within the FTSE Canada Universe Bond Index, the long term bonds segment saw the highest decline, with the benchmark FTSE Long Bond index returning -11.8% (-22.1% YTD), while the short term bonds segment returned -1.5% (-4.4% YTD). Corporate bonds fared better than their government equivalents.

Historic performance

Period	Median return (%)	Period	Median return (%)
Q2 2022	-8.6	Q1 2020	-7.1
Q1 2022	-5.5	Q4 2019	2.0
Q4 2021	4.5	Q3 2019	1.7
Q3 2021	0.6	Q2 2019	2.7
Q2 2021	4.4	Q1 2019	7.2
Q1 2021	-0.2	Q4 2018	-3.5
Q4 2020	5.4	Q3 2018	0.1
Q3 2020	3.0	Q2 2018	2.2
Q2 2020	9.6	Q1 2018	0.2

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About the RBC Investor & Treasury Services All Plan Universe

RBC Investor & Treasury Services has managed one of the industry's largest and most comprehensive universes of Canadian pension plans for more than 30 years. The All Plan Universe, a widely recognized performance benchmark indicator, tracks the performance and asset allocation of a cross-section of assets across Canadian defined benefit pension plans. The All Plan Universe is produced by RBC Investor & Treasury Services' Risk & Investment Analytics service, which delivers independent and cost effective solutions that help institutional investors monitor investment decisions, optimize performance, reduce costs, mitigate risk and enhance governance.

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For further information: Ylana Kurtz, ylana.kurtz@rbc.com, 416 348 2330