# Market Commentary
# First Quarter 2017

**Black Creek Global Balanced Fund**

"Come gather 'round people
Wherever you roam
And admit that the waters
Around you have grown
And accept it that soon
You'll be drenched to the bone
If your time to you
Is worth savin'
Then you better start swimmin'
Or you'll sink like a stone
For the times they are a-changin'"

–Bob Dylan, "The times they are a-changin'"

Or think of it this way: a rising tide lifts all boats, but the tide goes out as well. All in all, it's been a benign first quarter in economic and equity market terms. We see more evidence of increased economic activity in Europe and parts of Asia including China and Japan, while the United States continues to grow at a low rate, and emerging markets generally are bottoming out or beginning to pick up. Developed world equity markets are up just over 6% in U.S.-dollar terms so far this year, while emerging markets are up 11%. Market expectations for domestic economic growth for 2017 have the U.S. at just over 2%, the Euro area at about 1.5%, China and India around 6-7%, Japan at 1%, and Brazil at 0.5-1%. The world appears to be okay again.

But the times are about to change. This may be the beginning of the end of the post-crisis monetary experiment with indications from the U.S. Federal Reserve of interest rate rises in the U.S., and the European Central Bank (ECB) hinting that there may soon be a pull-back in quantitative easing. Producer prices are rising, causing some central banks to suggest that the war on deflation has been won. Inflation in the U.S. has risen to about 2% and we are starting to see wage pressures in some industries. Consumer prices in Britain are up more than 2%, but this may just reflect the weakness in the sterling. Euro area inflation is running at 1.6%. While inflation numbers in most countries are well below 5%, they do seem to be rising. We may be at the beginning of a period where credit costs begin to rise and economic growth, however anaemic now, may soon level off. We must remember that in the nineteenth century and most of the twentieth, real interest rates were positive and moved within a range of 3 to 5%.[1] We are still well below those levels. The rising tide of massive

quantitative easing is about to end, and we as investors need to start rowing (or swimming) harder to keep from sinking as the tide goes out.

Marginal monetary policy tightening can contribute to higher volatility of asset prices, changes in discount rates, and equity and bond prices. We have written before about the volatility expected at low interest rate levels – get ready to hold on to your hats.

While we see an improving global economy, the sustained period of low rates may have pulled demand forward in many sectors and especially in the U.S. for autos and housing. Global debt has grown post-crisis, and many banks and governments are still de-leveraging. We still have structural fiscal problems in many developed countries. For these reasons and others, we expect low global growth for the next five to 10 years.

With relatively high asset prices and expected high volatility as interest rates rise, we must be ready to take advantage of dislocations in equity prices as expectations change. We have always searched for the "better idea" in managing our portfolios, and we will continue to do so as the economic environment changes.

The fund performed well during the quarter. Grupo Televisa, Galaxy Entertainment, Inovalon, Wienerberger, Hugo Boss and Oracle added to performance while Aryzta, Now Inc., FTI Consulting and Anta Sports detracted.

During the quarter, we bought a new position in Varex Imaging and we sold our position in Carnival due to valuation and our process of continually upgrading the portfolio. Varex Imaging is a global leader in x-ray imaging components that are used to produce x-ray imaging systems in medical, industrial and security applications.

Our allocation to corporate and high-yield bonds added to performance. Three-quarters of the fund's bond holdings are held in corporate bonds, of which half are investment-grade and the other half high-yield. Both segments performed well as corporate bond spreads were mainly stable to slightly lower (more expensive), consistent with the benign first quarter environment. However, high-yield bonds fared better, largely due to their higher interest payments. Conversely, government bond yields ended the quarter not far off where they started 2017 despite being quite volatile intra-quarter as increased inflation expectations took hold and the U.S. Federal Reserve raised the policy interest rate for the third time since December 2015. In addition, commentary by global central bankers suggesting tighter (less favourable) monetary policy ahead also brought out sellers of government bonds globally causing yields to rise. There are even fewer negative yielding bonds compared to last year with the value of this category dropping from over $13 billon to just less than $7 billion currently, although the idea of negative yielding bonds remains a head scratcher.

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Our asset allocation in the fund has changed from this time last year. At that point we were increasing our exposures to both equities and corporate/high-yield bonds as we saw significant value in both areas following a selloff in the market. With a significant recovery and strong outperformance of both categories over the last year, we have begun to allocate funds to U.S. Treasuries of various maturities. As interest rates have started to rise and government bonds cheapened, this should provide a return as well as diversification benefits to the portfolio.

[1] Mervyn King, *The End of Alchemy,* 2016.

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