Market Commentary
Fourth Quarter 2018

SIGNATURE GLOBAL ASSET MANAGEMENT™

Sentry Corporate Bond Fund

Investment grade corporate bonds had a difficult end to the year, as did all risky assets, as the global economy slowed but central banks seemed determined to continue tightening financial conditions. Canadian investment-grade bonds underperformed Government of Canada bonds as interest rates fell and spreads widened dramatically during the fourth quarter. Capital markets were dealing with several concerns including U.S. Federal Reserve interest rate hikes, slowing growth in China and geopolitical issues related to Brexit, the Italian budget, and China-U.S. trade tensions. Global risky assets fell and volatility rose as the S&P 500 Index fell 13.5% over the quarter and West Texas Intermediate (WTI) oil fell 38% to close at $45.41 per barrel.

Credit fundamentals were fairly stable in the fourth quarter as U.S. earnings grew but at a slower rate than earlier in the year. Additionally, the picture for future growth was a little cloudier as trade tensions remained high. Earnings growth is expected to continue in 2019, but at a slower pace and with more differentiation across sectors. Issuance was notably lower in the U.S. and down 55% in Canada from the previous year. It was the lowest level of fourth-quarter issuance since the fall of 2008. U.S. investment-grade non-financial gross debt to EBITDA dropped slightly to 2.90 times as at 3Q-18, due to higher earnings and lower new debt. The ratio has fallen slowly from 3.11 times a year ago and a cycle high of 3.47 times in 2Q-16.

We believe worries that a few large investment-grade credits may be downgraded to high yield are all over stated, but due to the very fact that the concern exists, it has driven companies to take real action. This is positive for the overall market as other companies will be less likely to allow their credit profiles to weaken, lest their spreads widen dramatically or at worse are unable to fund themselves. General Electric, InBev, AT&T and Enbridge have all been in the headlines regarding their high debt levels, but all plan to take major steps to reduce debt levels over the next few years.

The U.S. Federal Reserve raised rates by 25 basis points at its late December meeting. It was considered a dovish hike as the Fed Chairman Jerome Powell took a much more cautious outlook on rate increases for 2019. The Fed's dot plot decreased the number of hikes expected in 2019 from three to two hikes. The Bank of Canada (BoC) also raised overnight rates by 25 basis points to 1.75% in October, as the BoC wanted to continue removing its accommodative stance but later in the quarter indicated that it would take a more balanced approach going forward given the headwinds facing the economy. The Canadian bond market stopped flattening and reversed course in the fourth quarter with the 2 to 30-year curve increasing 12 basis points to 32 basis points.

The Canadian Investment Grade Index returned 0.86% in the fourth quarter, significantly under performing Canadas as spreads widened 33 basis points and 10-year interest rates fell 47 basis points. In Canada, investor appetite for credit dried up as the quarter progressed to the point that it

became very difficult to bring new issues to market. The highest total returning sectors were mid-term infrastructure and financials, while the lowest returning sectors were long-term communications and industrials, as not only did the credit curves steepen but so did interest rate curves.

The outlook for Canadian investment grade is positive for the first half of 2019 as some of the weak liquidity induced spread widening is unwound at the beginning of the year. We believe the Canadian and global economies will post modest growth in 2019. Companies continue to de-lever, which is positive for credit quality, and issuance is expected to be light. Credit quality is expected to remain intact, demand to return, and we don't see any signs for major concerns at this point although we must remain nimble to changing political winds.

Class F Returns (in %) as at December 31, 2018	Year-to-date	1 year	3 year	5 year	Since inception (8/31/2012)
Sentry Corporate Bond Fund	-1.0	-1.0	3.1	3.8	3.7

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Published February 2019.