Market Commentary
First Quarter 2018

SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Canadian Balanced Fund

The S&P/TSX Composite Index was one of the worst-performing stock markets globally in the first quarter of 2018. Financials were generally weak, led lower by diversified financials and life insurance amid a pause in interest rate hikes. In addition, the energy sector was particularly weak despite higher oil prices. This was not unique to Canada. In the U.S., both oil services and exploration and production energy companies were also down. In normal circumstances, the two sub-sectors perform in line with energy prices. The likely explanation is the lack of investor confidence in the sustainability of higher oil prices.

The Canadian dollar initially strengthened in January but weakened toward quarter-end. Weakness in the loonie can be attributed to uncertainty over NAFTA, as well as the pause in rate hikes by the Bank of Canada (following the 25-basis-point rise in January) until there is further clarity on Canada's economic outlook.

Spreads for risky assets, in particular corporate bond and emerging market debt (U.S. dollar debt), widened in the first quarter of 2018, but are still significantly below their long-term averages.

Performance: Equities
Financials detracted with Wells Fargo and Synchrony Financial leading the decline. On the order of regulators, Wells Fargo is not allowed to grow its balance sheet following the sales scandal that erupted in 2016. Meanwhile, credit-card company Synchrony is being affected by higher charge-offs, a sign that credit quality is deteriorating. We remain positive on both stocks. Wells Fargo is a quality name that is finding its way and now trades at a discount to peers. Synchrony is a quality company in which charge-offs may be rising but from a low base that doesn't threaten its current positive outlook. We believe markets are over-reacting to the downside.

On the positive side, information technology was a contributor to performance with a positive showing by Micron Technology and Alibaba. We continue to hold both names. In the consumer sector, Amazon was a strong contributor during the quarter. The stock started to correct at the end of the quarter after U.S President Donald Trump tweeted negative comments about the giant retailer. We believe this is also overdone on the basis that the president has limited power to directly intervene in Amazon's business.

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Performance: Fixed income

The total return outcome of the portfolio was primarily driven by the drop in longer-term Canadian interest rates, offset by a significant widening of Canadian government credit spreads.

Overweight exposure to inflation-linked bonds was beneficial for alpha, given their outperformance relative to their respective nominal government benchmark bonds. Corporate credit selection and underweight government credit positioning was also alpha accretive, with 10-year Ontario spreads widening some nine basis points during the quarter.

U.S. dollar exposure net of hedges was supportive for alpha, as the greenback advanced against the Canadian dollar over the quarter. Foreign currency positions in the portfolio are actively managed through a hedging overlay.

Duration and yield curve positioning detracted, due to the underperformance of our U.S. duration exposure relative to Canadian duration. U.S. 10-year yields rose some 29 basis points more than their Canadian counterparts during the quarter.

Outlook

We remain unenthusiastic about the Canadian market. While Canadian banks remain solid, they offer limited upside. Meanwhile, the energy sector isn't benefitting from higher oil prices, at least for now.

The outlook for global equity markets is cautiously positive given the favourable economic backdrop and continued easy financial conditions, even if at the margin these will begin to tighten. Our lack of concern in the face of higher interest rates resides in the fact we remain in the early stages of any rate hikes, especially with respect to Europe and Japan. Nevertheless, this remains a delicate balance because a faster pace of rate hikes has the potential to derail markets. Our base case is that rate hikes will remain measured because inflation will remain contained.

Although risky assets have pulled back due to rising interest rates and an increased risk of a trade war on numerous fronts, global growth remains constructive. We continue to advocate a well-diversified portfolio of exposure as the best way to navigate the current environment in fixed income, including duration positioning across different portions of the yield curve, credit spreads, interest rate volatility and inflation compensation.

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Class F Returns (in %) as at March 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Canadian Balanced Fund	-1.6	5.3	3.6	7.3	6.2