Market Commentary
Fourth Quarter 2017

SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Canadian Balanced Fund

The S&P/TSX Composite Index underperformed most international stock markets in the fourth quarter, although many public companies benefited from global economic acceleration. The Canadian banking sector was the largest contributor to quarterly and annual performance for the index. Metals and mining stocks, as well as railroads were also strong performers into year end. The financials sector (of which banks represent the largest component) was responsible for almost half of the index's performance in both the quarter and the year.

In Canada, the central bank raised rates twice in 2017 and remained concerned about valuations in the housing market and elevated household debt, which makes the economy more sensitive to higher future interest rates. The 10-year Canadian interest rate declined -0.07% in the fourth quarter, ending the year at 2.04%, 0.36% over 2017 starting levels.

Elsewhere, the European central bank ended 2017 on an optimistic note, raising its growth forecast for the next two years. However, underlying inflation in Europe, as well as in Japan, continues to fall short of central bank targets. Furthermore, the Bank of England took back the post-referendum emergency interest rate cut and hiked interest rates 0.25% as inflation in the U.K. reached a five-year high.

In the equity portion of the fund, financials and consumer discretionary were the largest contributors to performance. In financials, our long-term holding in Synchrony Financial, formerly part of GE Capital, was the biggest contributor as was Wells Fargo. In Canada, both TD and Royal Bank contributed strongly. In consumer discretionary, contributors included Canada Goose, the apparel maker of winter jackets, and Sony.

In the fixed-income portion, duration and yield curve positioning detracted from performance due to our underweight duration position in longer maturity Canadian bonds, which performed well during the period. The underperformance of U.S. duration exposure relative to Canadian duration also negatively affected performance, significantly outweighing the impact of residual U.S. dollar exposure.

Over the fourth quarter, we added a modest amount of Canadian duration mainly in longer maturities, and shifted exposure toward this area of the yield curve from shorter maturity Canadian bonds. In addition, we increased our U.S. inflation-linked bond positions, moving this exposure from the Canadian market via sales of federal debt.

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The outlook for Canada is positive – consistent with the global outlook. As Canada's economy powers ahead, it's increasingly likely that interest rates and the Canadian dollar may rise. Markets expect the Bank of Canada to raise rates twice in 2018. Oil prices are also recovering, which is positive for the loonie. Despite the positive backdrop in the short term, some major headwinds may develop as we move into the tail end of this economic cycle. We remain generally bullish on risky assets and equities in particular.

Volatility is expected to return to markets in 2018 as monetary policy globally moves towards normalization (higher interest rates). Currently, economies and markets can absorb these increases – as Canada did in 2017 when the Bank of Canada raised rates twice. But as time passes and rates continue to rise, the desired impact will eventually kick in and slow economic activity. We continue to monitor the situation closely.

The yield curve in the U.S. is the flattest it has been since the financial crisis in 2008-09, and we remain cautious in positioning our portfolios as the bond market begins to signal a decline in growth expectations.

Class F Returns (in %) as at December 31, 2017	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**
Signature Canadian Balanced Fund	10.5	10.5	5.8	8.5	6.2