Market Commentary
Second Quarter 2018

Signature Emerging Markets Fund

The second quarter of 2018 was a challenging quarter for emerging market equities which declined almost 8% in U.S. dollar terms. The decline was even more disquieting when compared to the positive return of developed market equities, with the difference in performance just shy of ten percentage points. Higher U.S. interest rates, a stronger U.S. dollar, elevated oil prices and increasing political risks created enough uncertainty to drive investors out of emerging market assets. Although the decline was led by Latin America in general and Argentina specifically, the selloff in Asian equities gained momentum later in the quarter as political tension between the U.S. and China spilled over into an increased probability of tariffs and tough technology restrictions. These latter restrictions, together with intellectual property protection, are not expected to be resolved soon and will continue to be an overhang on the market for quarters to come.

It would be wrong to argue emerging market positioning had returned to neutral following the substantial outflow of investments during the quarter. These outflows need to be evaluated against recent inflows. The outflows during the second quarter, although substantial, have not even fully offset the inflows recorded in the first quarter of 2018, leaving the year-to-date flows into emerging assets still in positive territory after record inflows in 2017. This is important, as it would suggest that positioning is still far from "neutral" and further outflows and price declines are possible if economic and political uncertainties continue.

Depreciating currencies and higher oil prices have forced several central bankers in emerging market economies to reverse monetary policy by either tightening (i.e. hiking interest rates or abruptly ending the loosening cycle. Included in this group are Argentina, Brazil, South Africa, Indonesia, India, China and Turkey). Depreciation currencies, reversals in monetary policy, carry unwind and increased geopolitical uncertainty not only weighed on markets but are also starting to affect the real economy and the outlook for growth. This in turn, raises questions about the still optimistic earnings outlook for emerging markets into the remainder of 2018 and into 2019.

Going forward, we remain cautious despite a correction in valuation and positioning. With the high mark in global economic growth now in the rear-view mirror, U.S. rates continuing higher, a firm U.S. dollar, high energy prices, geopolitical tension rising rather than falling and trade protectionism becoming reality, emerging market equities are going to have a hard time outperforming its developed market peers in the foreseeable future. A reversal of any of the aforementioned could bring temporary relief. In the meantime, we prefer a more defensively positioned portfolio, reducing exposures to companies that could get wrapped up in escalating trade and technology hostilities that are negatively correlated to falling currencies and are sensitive to higher inflation.

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Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Emerging Markets Fund	-0.1	13.2	7.4	8.4	3.7

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