

Market Commentary

First Quarter 2018



Signature Global Bond Fund

While 2017 was marked by compressed volatility and outperformance of risky assets, the first quarter of 2018 saw the return of uncertainty and volatility within markets. President Trump's tax bill helped kick off the new year with the expectation that its impact on an already strong U.S. economy would increase inflation. The effect caused government bond yields to rise dramatically in January. By the end of March, the escalation of a possible trade war between China and the U.S. was enough to prompt risk spreads to widen and the U.S. government bond yields to retrace, with the U.S. 10-year Treasury yield ending the quarter at 2.76%. Similarly, the 10-year Canadian bond yield rose for most of 2017, but took a step back in February and March, ending the quarter yielding approximately 2.10%.

Monetary policy for the period resumed its slow pivot of normalization. Both the Bank of Canada and the U.S. Federal Reserve raised rates in the first quarter of 2018. The Bank of Canada increased the overnight target rate to 1.25% in January and was cautious regarding the prospects for future shifts, as NAFTA talks continue unresolved.

South of the boarder, the Fed – under newly elected Chairman Jerome Powell – raised rates in March to a range of 1.5% to 1.75%. The European Central Bank and the Bank of Japan remain further behind, with both central banks providing accommodative policy, but signalling that the end of such policy is within sight.

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

In the first quarter of 2018, Signature Global Bond Fund returned 3.28%. The fund's total return was driven primarily by exposure to foreign currencies, as the Canadian dollar was among the worst performing among the Group of 10¹ currencies in the first quarter.

¹ The Group of Ten is made up of eleven industrial countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States) which consult and co-operate on economic, monetary and financial matters.

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Contributors to performance

The main contributor to the fund's total return was its exposure to bonds denominated in foreign currencies, particularly Japanese yen and euro-denominated bonds.

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Detractors from performance

The main detractor from the fund's total return was the overweight duration positioning in U.S. dollar-denominated bonds, coupled with the rise in U.S. yields of nearly 0.4% in the quarter. Relative to the benchmark, the fund's overweight in Canadian dollar-denominated bonds, together with an underweight in Japanese yen and euro-denominated bonds, detracted from alpha performance as the Canadian dollar underperformed both the yen and the euro in the first quarter.

Portfolio positioning

The portfolio remains underweight total duration relative to the benchmark, and is primarily concentrated in the long end of the Japanese and European yield curves. In terms of currency exposure, the strategy remains underweight in yen and euro-denominated bonds, in favour of an overweight in higher-yielding U.S. dollar-denominated bonds. However, the underweight exposure to yen and euros was decreased throughout the first quarter via the use of cross-currency hedges.

The fund's exposure to U.S. dollar-denominated emerging market sovereigns increased by 10% in the quarter at approximately 25%. Exposure to TIPS rose to 8% at the end of the first quarter from 3.5% at the end of 2017.

Outlook

Although risky assets have pulled back due to rising rates and increased risks of trade wars, 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 Global Bond Fund	2.7	1.3	2.2	4.4	4.6

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