Market Commentary
First Quarter 2018

Signature Global Equity Fund

What a difference a quarter can make. After a Goldilocks 2017 that suspiciously went vertical to the upside in January, the stock markets came crashing down to earth in the last two months of the quarter. It was truly a quarter of two halves or really one-third, two thirds with the year starting off brilliantly and then coming down hard. This, despite continued good financial conditions, a globally synchronized economic recovery and the positive effect of a U.S. tax cut and fiscal stimulus.

The strong upward move in January was a warning that constructive conditions were giving way to investor exuberance. Signature was fortunate to capitalize on this phenomenon by raising some cash in January, but we would have preferred to raise even more.

The outlook remains positive but a period of market digestion of above-trend valuations as well as better awareness of risks, namely trade but also interest rates, need to be worked through before markets resume their uptrend. It is likely the market is once again experiencing a regime change from reflationary to inflationary, but we would caution that it will remain low and likely ephemeral.

What has changed permanently for this cycle in our opinion is that volatility is back, and will remain a feature going forward, something we wrote about at year-end 2017.

For the first quarter, in Canadian dollar terms, the best-performing asset was the Nasdaq at 4.8%, and commodities represented by the S&P GSCI (formerly the Goldman Sachs Commodity index). Meanwhile, Europe, Asia and emerging markets were generally down in the quarter – between 1% and 3% for the major indexes.

Performance

The Signature Global Equity Fund rose ~~almost 1.99~~1.0% in the quarter. Financials were the largest detractor, falling about 1% 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 does not threaten its current positive outlook. We believe markets are over-reacting to the downside.

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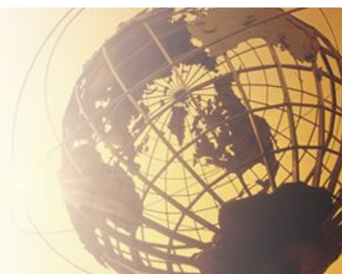

Consumer discretionary was a net contributor to the portfolio due largely to Amazon, which soared through the quarter. The stock started to correct towards the end of the quarter after U.S. President Donald Trump tweeted negative comments about the giant retailer. We believe this is also overdone on the basis that the president has limited power to directly intervene in Amazon's business.

Outlook

The outlook for equity markets continues to be 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 stage of 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.

That being said, markets require a period of gestation while resetting to the new reality of progressively higher rates, a reversal of quantitative easing (only in the U.S. for ~~now) and~~now) and the threat of trade wars. However, concerns surrounding trade wars feel exaggerated given the Trump playbook: Trump is using tariffs and the *threat* of a trade war to achieve trade deals as opposed to a trade war itself. In fact, all indications suggest a classic Trump bargaining tactic. Admittedly this is a potentially dangerous calculation, but the main target of these threats, China, appears to be willing to negotiate in order to avoid a trade war. This situation remains at the early stages, but a deal is more likely than not given Trump's partialness to the stock market as a barometer of his success. Failure to strike any deal could see a much more meaningful correction.

Positioning

We are less bullish on risky assets but still overweight equities and underweight government bonds. We are underweight high yield; however, we are beginning to see opportunities in the high-yield sector amid some spread widening and the low probability of default in the absence of any recession (which we don't foresee at this time). We maintain healthy cash levels as we anticipate a continuation of volatility.

Class F Returns (in %) as at March 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Global Equity Fund	1.0	11.9	7.1	12.5	6.8

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