Market Commentary
Fourth Quarter 2017

SIGNATURE GLOBAL ASSET MANAGEMENT™

Signature Global Equity Fund

Global markets were once again generally strong in the final quarter of 2017, thanks to a global economy that continues to accelerate and financial conditions that remain favourable. The passage of U.S. tax reform was an added bonus.

In Canadian-dollar terms, the MSCI Emerging Markets Index rose 8% in the fourth quarter and Japan's Nikkei Index rose 12.6%. Europe was considerably weaker on account of a much stronger euro. In the U.S., the Dow Jones Industrial Average Total Return Index was up 11.9%, outpacing the Nasdaq Stock Market's 7.2% rise. The Nasdaq was up 23% for the year, Emerging Markets up 25.6% and India's S&P BSE SENSEX was up 27.2%. Equity returns in 2017 were among the best and most consistent on record with the lowest average levels of volatility ever recorded. The S&P 500 (total return which includes dividends) was up every month of 2017.

The leading sector for both developed and developing markets was information technology. China's technology sector with well-known stocks like Baidu, Ten Cent and Alibaba, were up significantly in 2017 and helped drive emerging markets outperformance. Cyclical and industrial sectors were also strong, particularly in the fourth quarter as global industrial production continued to rise, confirming the global synchronized recovery that continues to go from strength to strength. The one cyclical sector that didn't rise was energy, despite higher energy prices over 2017, also a first.

Among the contributing sectors to Signature Global Equity Fund were consumer discretionary, financials and materials. Consumer discretionary contributed 1.51% led by Sony Corp, Home Depot, Burlington Stores and Nike. Materials contributed 0.55%, led by large multinationals in the sector such as Glencore, Rio Tinto and Sealed Air. Health care, real estate and utilities neither contributed nor detracted from performance in the quarter. All in all, performance was even in the portfolio, consistent with the nature of the markets.

Positioning

We generally remain bullish on risky assets and equities in particular where we are overweight in balanced funds. After adding to cyclical sectors last quarter, we also recently added physical gold. The rationale for investing in gold is that inflationary pressures may rise more than expected and geopolitical risks remain high.

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Outlook

The outlook for equity markets continues to be positive given the favourable economic backdrop and continued easy financial conditions, but we are likely in the later innings of this powerful bull market. Global economic growth continues to accelerate. In Germany, unemployment is at a multi-decade low. A similar scenario is playing out in the U.S., where the economy is solid and unemployment is close to a 20-year low.

Meanwhile, financial conditions remain largely accommodative because many central banks, with the exception of the U.S. Federal Reserve (Fed), have not been pressured to raise interest rates. This is largely due to ongoing low inflation on account of low to non-existent wage growth in most regions of the world. In the U.S., there is evidence that wages are beginning to rise.

The upshot is that monetary policy around the globe, and in the U.S. in particular, will likely tighten and at a more-aggressive pace than widely anticipated. Currently, the Fed is calling for three rate hikes in 2018 but the market only anticipates two. This is likely to create volatility at some point – likely in the second half of 2018 if inflationary pressures accumulate, which will pressure central banks to raise rates further.

Class F Returns (in %) as at December 31, 2017	Year-to-date	1 year	3 year	5 year	10 year
Signature Global Equity Fund	16.3	16.3	10.8	14.3	5.8