Market Commentary
First Quarter 2018

Signature Global Income & Growth 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%.

Canadian investment grade new issuance was up 11% this year as Maple issuance has picked up greatly. Issuance is expected to remain healthy in 2018 due to strong demand and relatively low cost for companies.

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.

In fixed income, exposure to bonds denominated in foreign currencies, particularly Japanese yen and euro-denominated bonds contributed to the fund's return. Exposure to U.S. dollar-denominated Treasury Inflation-Protected Securities (TIPS) also contributed as inflation expectations rose throughout the quarter.

Detracting from returns 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. 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.

In equities, financials detracted from performance, 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.

Consumer discretionary was a contributor due largely to Amazon, which soared through the quarter. The stock started to correct toward 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.

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.

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.

The outlook for Canadian investment grade is mixed for the next quarter, as we believe the Canadian and global economies will post good growth, but the effects of higher rates will slow growth going forward. Central banks are cautiously removing excess stimulus. Corporate spreads are fairly tight so prudence is necessary. However, credit quality is expected to remain intact, demand is strong, and we do not see any signs for concern at this point. Therefore, we remain cautiously overweight corporate bonds but will likely begin to reduce our overweight position in coming months.

Class F Returns (in %) as at March 31, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**
Signature Global Income & Growth Fund	1.5	7.9	4.9	9.6	7.7

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