Market Commentary
Third Quarter 2018

Signature Global Income & Growth Fund

Equity markets were powered higher by two dominant forces in Q3. The first was the strong performance of technology names where the U.S. is dominant. The second was international markets and in particular Europe, which benefited from better-than-expected economic data and a stable political climate after a year of uncertainty as to the future of the European project, post the Brexit referendum. The more recent clean-up of residual bad banks in Spain with the bail in of Banco Popular and the bail out of two Italian Popolare banks is another positive for the continent.

In Canada, the Bank of Canada (BoC) hiked interest rates in July, the second time this year, to 1.5%. While economic data have evolved broadly in line with BoC forecasts, business uncertainty induced by NAFTA (now U.S.-Mexico-Canada Agreement, or USMCA) re-negotiations has led the BoC to proceed with caution in its rate-hiking cycle, keeping rates unchanged at its September meeting. However, the resolution of trade negotiations with the U.S. and Mexico removed what was arguably the single greatest risk to the BoC policy rate path.

In Europe, the populist Italian government will continue to cause grief for the European Union (E.U.) with its recent announcement of a 2.4% budget deficit for 2019. While this figure meets the E.U.'s Stability and Growth Pact of not running a budget deficit in excess of 3%, the E.U. will likely push back given the previous Italian government's commitment to shrink the budget deficit.

Against this backdrop, global bond markets saw interest rates rise across developed markets. In North America, 10-year rates in Canada and the U.S. ended the third quarter at 2.43% and 3.06%, respectively, while in Europe, 10-year rates reached 0.47% in Germany and 1.57% in the U.K.

The fund (Class F) returned 0.9% for the quarter. Financials generally continued to stall as bond yields declined. We believe this is a period of consolidation and in the last week of the quarter there was a strong rebound in the sector, suggesting the consolidation is over. Synchrony Financial was one of our weaker names; however, Citigroup was a strong performer.

Consumer staples was a bright spot with Nestlé rallying during the quarter following the investment of activist Daniel Loeb, who is advocating that the company rationalize its product line and return cash to shareholders. This is something the new CEO of Nestlé was seeking to do anyway, but the move by Loeb seems to have captured investors' imagination even more.

We generally remain bullish on risky assets and equities in particular. During the quarter, exposure to technology was increased slightly.

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Markets appear to be transitioning from growth back to more value-oriented sectors. Technology has been a strong performer since the beginning of the year while financials and health care have stalled. Recent market moves suggest this may be reversing.

The outlook for equity markets continues to be positive on account of easy financial conditions, which remain intact despite higher short-term U.S. interest rates and statements from a number of central banks on the prospect of tightening monetary conditions via higher interest rates. This can be explained by the continued global synchronized recovery, which has accelerated in Europe in particular and continued in emerging markets. Central banks like the Bank of Canada, Bank of England, and European Central Bank are making the case for more normalized monetary policy (higher interest rates). In addition, the U.S. Federal Reserve has declared it will begin reducing the size of its balance sheet. We will be closely monitoring the impact of these developments on financial conditions.

While financial conditions have become less accommodative globally, the speed at which the Fed is normalizing monetary policy is outpacing other developed market central banks. A growing divergence between U.S. rates and the rest of the world could continue strengthening the U.S. dollar. A sharp tightening of global financial conditions could lead investors to shed risky assets.

In the geopolitical sphere, we continue to monitor developments in the U.S.-China relationship and the ongoing Brexit negotiations.

The fund has a modest exposure to U.S. dollar-denominated emerging market bonds, but does not own the vulnerable issuers such as Argentina and Turkey.

Although the growth outlook remains constructive in major economies, particularly in the U.S., we note downside risks as global markets adjust to the reversal of accommodative financial conditions, which have been in place for the last decade. As such, we stand ready to manage these risks in the portfolio by adding duration (interest rate exposure) and/or reducing exposure to credit spreads.

As the divergence between U.S. rates and the rest of the world grows, the U.S. dollar could continue to strengthen in the short-term, which means that vulnerable emerging market economies (with large U.S. dollar-denominated debt) should continue to import the Fed's tightening monetary policy. The expected showdown between the E.U. and the Italian government over the latter's budget deficit proposal will likely keep volatility high in Europe and put downward pressure on the euro and Italian spreads.

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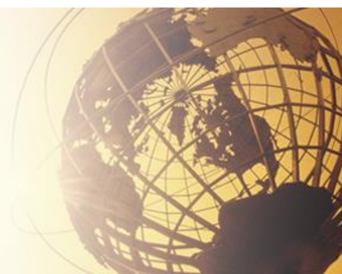

At the end of the quarter, the fund was comprised of approximately 11% cash, 55% equities and 34% fixed income including 22% government bonds, 8% high-yield bonds and 4% investment-grade bonds.

Class F Returns (in %) as at September 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Global Income & Growth Fund	5.1	10.4	7.2	9.5	9.1

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