Market Commentary
Fourth Quarter 2017

SIGNATURE GLOBAL ASSET MANAGEMENT™

Signature Global Income & Growth 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'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 Index was up every month of 2017.

In Canada, the central bank raised rates twice in 2017 and remained concerned about valuations in the housing market and elevated household debt, which makes the economy more sensitive to higher future interest rates. The 10-year Canadian interest rate declined -0.07% in Q4 ending the year at 2.04%, 0.36% over 2017 starting levels.

Elsewhere, the European central bank ended 2017 on an optimistic note, raising its growth forecast for the next two years. However, underlying inflation in Europe, as well as in Japan, continues to fall short of central bank targets. Furthermore, the Bank of England took back the post-referendum emergency interest rate cut and hiked interest rates 0.25% as inflation in the U.K reached a five-year high.

Investment grade corporate bonds bounced back in the fourth quarter and outperformed Government of Canada bonds as interest rates fell on average across the curve and credit spreads tightened.

In the equity portion, the consumer discretionary, financials and materials sectors contributed to performance. Consumer discretionary holdings were led by Sony, Home Depot, Burlington Stores and Nike. Materials holdings were 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 equity portfolio, consistent with the nature of the markets.

In the fixed-income portion, returns were primarily driven by a continued outperformance of global credit risk premia. Yield curve positioning contributed as an overweight in Canadian-denominated duration benefitted from the fall in long-term Canadian interest rates throughout the quarter. Currency positioning detracted due to the strategy's overweight in Canadian-dollar-denominated debt and underweight in euro-denominated debt, as the Canadian dollar depreciated relative to most of its G10 peers while the euro was the best performing G10 currency throughout the last quarter of 2017. In the spread space, exposure to Canadian-dollar-denominated provincial government bonds, U.S. agency mortgages, U.S. inflation-linked bonds and U.S.-dollar-denominated emerging market sovereign bonds combined to help performance.

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.

The portfolio remains underweight total duration, primarily concentrated in the long end of the European and Japanese yield curves. In terms of currency exposures, the strategy remains underweight in Japanese yen and euro-denominated bonds in favour of an overweight in higher income generating Canadian-dollar-denominated bonds. However, the underweight exposure to euro debt was reduced at the expense of U.S.-dollar-denominated government and agency debt.

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, 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.

In 2018, we anticipate further spread tightening from both investment-grade and high-yield bonds, supported by synchronized global growth, cautious central banks, and a declining default rate despite pockets of weakness in retail, generic pharmaceuticals, and wireline telecommunications. This spread compression should be sufficient to drive positive returns despite three to four rate hikes expected from the U.S. Federal Reserve in 2018. There are wildcards, like Fed policy under the new leadership of Jerome Powell, the future of the European Central Bank's stimulus program, record low volatility across asset classes, groupthink and complacency, and headwinds, principally valuations. Current spreads (and prices) are on the expensive side of historical averages but not irrational. U.S. tax reform should turn out to be credit positive as lower corporate tax rates boost cash flows.

Class F Returns (in %) as at December 31, 2017	Year-to-date	1 year	3 year	5 year	10 year
Signature Global Income & Growth Fund	9.9	9.9	8.1	10.8	7.2