

# Market Commentary

## Fourth Quarter 2017



### Signature Preferred Share Pool

The Canadian preferred share market had a strong fourth quarter despite an early December sell-off, as expectations for higher short-term interest rates drove floating and rate re-set issues higher. The market had an excellent year overall, with the BMO 50 Preferred Share Index up 17.4%, while the S&P/TSX Preferred Share Index gained 13.6%, due mainly to its lower weighting in floating rate preferred shares. The market for risk assets remained positive for the quarter, as the S&P 500 Index rose 6.6% and WTI oil prices gained 17% to close at US\$60.42 per barrel.

The BMO 50 Preferred index rose 3.26% in the fourth quarter with higher interest rates, as five-year Government of Canada bond yields moved 11 basis points higher to 1.86%. Within the index, floating rate shares led for the fourth quarter in a row with a 6.30% return, while rate re-set shares returned 3.10% and perpetuals 2.39%.

Preferred shares continued to benefit from very strong retail demand, and institutional demand improved based on higher rates and a lack of new issuance for about two and a half months. The sell-off at the beginning of December was due in part to a dip in five-year bond rates, some year-end profit taking and new issuance of \$1.4 billion in a week.

Issuance for the quarter overall was light, up slightly from the third quarter with four issues totalling \$1.4 billion, while redemptions totalled \$650 million across four issues for a net increase of only \$750 million. Issuance is expected to be manageable in 2018 as banks have more legacy redemptions, but also have more avenues to meet their requirements.

The U.S. Federal Reserve raised interest rates by 25 basis points at its December meeting and signalled three further increases in 2018. The Bank of Canada kept rates on hold during the fourth quarter but indicated that rate increases in 2018 would depend on economic data. Strong unemployment data for November, therefore, lent support to the expectation that the Bank of Canada would raise rates.

The outlook for preferred shares remains positive as higher interest rates in Canada support the rate re-set and floating preferred shares that make up the majority of the market. Retail and institutional investors continue to have a high demand for preferred shares due to better expected returns than fixed-income markets.

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<b>Class F Returns (in %) as at December 31, 2017</b>	<b>Year-to-date</b>	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>Since inception</b>	<b>Inception date</b>
Signature Preferred Share Pool	11.1	11.1	N/A	N/A	11.2	12/17/2015

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