Market Commentary
First Quarter 2018

SIGNATURE GLOBAL ASSET MANAGEMENT™

Signature Select Canadian Fund

The S&P/TSX Composite Index was one of the worst-performing stock markets globally in the first quarter of 2018. Financials were generally weak, led lower by diversified financials and life insurance amid a pause in interest rate hikes. In addition, the energy sector was particularly weak despite higher oil prices. This was not unique to Canada. In the U.S., both oil services and exploration and production energy companies were also down. In normal circumstances, the two sub-sectors perform in line with energy prices. The likely explanation is the lack of investor confidence in the sustainability of higher oil prices.

The Canadian dollar initially strengthened in January but then weakened toward quarter-end. Weakness in the loonie can be attributed to uncertainty over NAFTA, as well as the pause in rate hikes by the Bank of Canada (following the 25-basis-point rise in January) until there is further clarity on Canada's economic outlook.

Performance

The Signature Select Canadian Fund fell almost 2% in the quarter. Financials were the largest detractor 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 doesn't threaten its current positive outlook. We believe markets are over-reacting to the downside.

On the positive side, information technology was a contributor to performance with a positive showing by Micron Technology and Alibaba. We continue to hold both names. In the consumer sector, Amazon was a strong contributor during the quarter. The stock started to correct at the very 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.

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Outlook

We believe Canada's economic outlook is consistent with the global economic outlook, which remains positive. The Canadian dollar is recovering from a recent sell-off, thanks to continued sound economic activity as well as improved confidence about the future of NAFTA; however, we expect the loonie to trade within a broad range.

We remain unenthusiastic about the Canadian market. While Canadian banks remain solid, they offer limited upside. Meanwhile, the energy sector isn't benefitting from higher oil prices, at least for now.

The outlook for global equity markets is 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 stages of any 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.

That being said, markets require a period of gestation while resetting to the new reality of progressively higher rates, a reversal of quantitative easing (only in the U.S. for now) and the threat of trade wars. However, concerns surrounding trade wars feel exaggerated given the Trump playbook: Trump is using tariffs and the *threat* of a trade war to achieve trade deals as opposed to a trade war itself. In fact, all indications suggest a classic Trump bargaining tactic. Admittedly this is a potentially dangerous calculation, but the main target of these threats, China, appears to be willing to negotiate in order to avoid a trade war. This situation remains at the early stages, but a deal is more likely than not given Trump's partialness to the stock market as a barometer of his success. Failure to strike any deal could see a much more meaningful correction.

Positioning

We generally remain bullish on risky assets and equities in particular, at least versus bonds.

Class F Returns (in %) as at March 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Select Canadian Fund	-3.0	8.9	6.9	10.5	7.0

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