Market Commentary
Third Quarter 2018

Signature Select Canadian Fund

The S&P/TSX Composite Index was one of the weaker stock markets globally in Q3, on account of weakness in energy, as oil prices corrected, and materials. Even Canadian banks were weak, while industrials was one of the better performing sectors. Interestingly, the weakness in these two cyclical sectors does not suggest a global economic slowdown. In fact, economic data continues to confirm the continuation of a global synchronized recovery as European economies in particular continue to improve.

The strength of the Canadian dollar, following the Bank of Canada announcement that it is likely to raise interest rates, took most market participants by surprise and also contributed to the weakness of the Canadian market.

The fund (Class F) returned 0.3% in the quarter. Information technology was the largest contributor to fund performance. Leading performers included Shopify, the Canadian cloud-based commerce platform, and Alibaba, the largest Chinese e-commerce platform.

Materials also contributed marginally thanks to companies like Lundin Mining and Tahoe Resources.

Energy performance was weak, with companies like Encana detracting as they were caught in the oil price decline. Energy weakened through most of the quarter as oil inventories, which were declining, reversed as U.S. shale production rebounded. In the last week of the quarter, oil and energy in general rebounded.

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

The Canadian dollar may continue to rally against the U.S. dollar as markets anticipate a Bank of Canada rate increase in November because global investors remain negatively positioned against the loonie. Any further strength in the Canadian dollar is not, in our opinion, sustainable longer term.

Markets also 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 global 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 that it will begin reducing the size of its balance sheet. We will be closely monitoring the impact of these developments on financial conditions.

Class F Returns (in %) as at September 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Select Canadian Fund	2.4	8.4	12.2	10.5	8.6

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