Market Commentary
Second Quarter 2018

PICTON MAHONEY
Asset Management

Synergy Canadian Corporate Class

Markets have been generally "on the mend" following the volatility spike that marked the first quarter. After the experience of 2017, where there was very low implied (and realized) volatility in the marketplace, we remind investors that as we move into the late-cycle phase, volatility tends to be a feature, coupled with more violent sector rotation and a general need to be nimble and manage risks.

The inflation impulse has resurged, to a degree, providing Canadian equities some "catch-up" to the performance of global developed markets during the period in review. That said, underlying economic growth globally seems to be exhibiting some meaningful divergences, as a robust U.S. economy keeps the U.S. Federal Reserve Board (Fed) stalwart on a path of higher interest rates. The Bank of Canada failed to hike rates at its most recent meeting, yet curiously sent a hawkish signal for the next meeting, despite continued frustration in NAFTA negotiations, now coupled with the imposition of U.S. tariffs. The sabre rattling of trade disputes is but one more risk testing the mettle of active managers and passive equity holders alike.

For the quarter ended June 30, 2018, the fund returned 4.6%. Selection effects in financials and industrials detracted from performance. The largest individual detractors were Enbridge and Suncor Energy, reflecting the opportunity cost of being underweight the sector in a strong month for energy. Conversely, positioning in financials (underweight) and information technology (overweight) added to performance. Top contributors were Great Canadian Gaming Corporation and BRP.

As noted above, the intent of the Fed to continue hiking interest rates is causing discomfort for many economies whose growth is far less robust. These growth divergences also hinge on a strengthening U.S. dollar, which poses its own risks, notably for emerging markets and economies sensitive to consumption of goods priced in U.S. dollars (i.e., commodity-centric economies).

Overall, the rise of populism (in its various permutations globally) brings with it risks of heightened protectionism and a likely shift away from globalization, which has been a powerful underpinning to global growth for many years. As such, we continue to focus on portfolio construction, whereby risk management and active share (i.e., differentiating from the benchmark) should add value. We are of the view that the Canadian economy may not benefit as greatly in this late-cycle phase as it has in the past, and that the next global recession (when it comes) is likely to expose some structural challenges in our economy.

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Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Synergy Canadian Corporate Class	3.2	9.9	5.6	9.6	5.1