Market Commentary
Third Quarter 2017

Synergy Canadian Corporate Class

The third quarter was marked by a fairly benign macroeconomic environment. Despite the headline risks, both realized and implied volatility remained subdued as global equity indexes trended higher. Central banks in the developed world have been moving increasingly towards a unified view of normalizing interest rates (higher). In tandem, many have begun to telegraph quantitative tightening, a gradual removal of the stimulative effect of their expanded balance sheets.

In this environment, Canadian equities continued to underperform their global peers (as measured by the MSCI World Index). What began as a hint in June of earlier-than-expected rate hikes, the Bank of Canada delivered two successive rate hikes (in July and September), further squeezing market participants who were short (bearish) the Canadian dollar. The “strength” of the loonie was more a reflection of the U.S. dollar’s weakness against most major currencies. During this time, Canadian investors who weren’t currency hedged lost out on the resulting currency-driven returns in non-Canadian equities.

For the quarter ended September 30, 2017, Synergy Canadian Corporate Class returned 2.16%. Our weighting allocation in utilities and consumer discretionary sectors added modest relative performance. Top contributing holdings were Air Canada and Spin Master. Our positioning in health care and energy detracted from relative performance at the sector level. Suncor Energy was the largest individual detractor, as being underweight proved an opportunity cost. Conversely, a large active weight in Parkland Fuel was the second largest detractor as the stock declined in the quarter.

The prospect of leading economic indicators hitting their peak puts us on alert for greater volatility and generally lower forward returns. While we remain constructive for what remains of this cycle (and thus prefer equities over bonds), we continue to practice vigilance to manage risk.

Central banks in the developed world appear unified in their desire to normalize interest rates and the first steps in quantitative tightening are being well communicated. We don’t believe this requires a dogmatic turn to a bearish stance as the proverbial “punch bowl” is taken away. On the contrary, we believe the opportunity for active management has become more evident after a prolonged era when simply “owning the market” (with a low volatility/income bias) has worked for so many.

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Class A Returns (in %) as at September 30, 2017	Year-to-date	1 year	3 year	5 year	10 year
Synergy Canadian Corporate Class	5.4	8.9	3.9	8.9	3.1