Market Commentary
February 2018

CI Multi-Asset™ Management

Comment on market volatility
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Over the past few days, both stock and bond markets have behaved irrationally, causing the first large swings that we have seen in a while. In 2017, there were only four days where the S&P 500 Index lost more than 1% and the maximum drawdown for the unluckiest investors (those who bought at the high and sold at the low) was only -2.8%. Things have changed so far in February, to say the least.

In our observation, the recent market decline was not due to changes in economic conditions as the U.S. recently passed tax cuts, earnings are growing and the global economy is on a growth path. Financial conditions are healthy despite big moves in the markets. Foreign exchange volatility remains tame and high-yield markets have held up strongly. These are signs that the real economy is functioning. However, we expect stock market volatility to maintain a higher level, effectively returning to normal, which is generally positive for active management.

The market declines on February 2 and 5, 2018 can largely be attributed to valuations, as markets have traded at premiums driven by a prolonged period of investor enthusiasm. Speculative names such as Bitcoin have had a roller coaster ride and their true value has yet to be determined. Volatility picked up as investors who speculated that volatility would move lower had to cover their short positions. We were not in any of these camps as we were more concerned about equity market valuations, but not the economies. In Select Income Managed Corporate Class and CI Income Fund, we have had low equity exposure for a while. Within the equity portion, we are overweight infrastructure and REITs. These asset classes detracted value in 2017 but also experienced half the volatility during the recent market sell-off. Recognizing that we were underweight equity for valuation reasons, we took some equity risk on February 5 via a S&P 500 option strategy as we saw value in a rather emotional day. Markets turned direction on February 6 with gains in equities and losses in bonds. The gains in our option strategy helped to offset bond volatility.

For sovereign bonds, price momentum remains weak. The U.S. Treasury has broken through various key levels. The 10-year yield is marching to 3.0% which is the “worst case scenario” many investors have been calling. We suspect it may overshoot and get a little worse. At that level, volatility would likely die down and create an excellent entry point for investors. We have positioned Select Income Managed Corporate Class and CI Income Fund to have low bond market downside capture for the time being. We used a gold bullion position to hedge inflation (interest rate risk) and it has done well. We recently trimmed the position.

February has been challenging so far as the S&P/TSX Composite Index, S&P 500 Index and FTSE TMX Universe Bond Index were all down as of February 5, 2018 (3.9%, 6.2% and 0.45%, respectively). Select

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Income Managed Corporate Class and CI Income Fund recorded declines of 0.61% and 0.56%, respectively, for the same period. We had little downside capture of the markets.

Class F Returns (in %) as at January 31, 2018	1 year	3 year	5 year	Since inception	Inception date
Select Income Managed Corporate Class	1.9	1.5	3.6	4.1	9/17/2010
CI Income Fund	1.8	1.7	3.8	4.0	10/5/2010