Market Commentary
Fourth Quarter 2018

SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Emerging Markets Fund

The fact that emerging market equities were down "only" 14.3% in 2018 (U.S. dollar terms) speaks to the underlying strength of these economies and that investors have not abandoned emerging markets en masse as had often been the case during previous challenging periods. Inflows into emerging market equities stood at a healthy $22 billion, well below 2017's inflows but still positive. This is the second consecutive year of positive inflows following the annual outflows between 2013 and 2016.

Apart from the brief rally in January 2018, the selloff in emerging markets was an almost uninterrupted downtrend until October before stabilizing close to the October lows. Emerging market assets faced three major global headwinds: tighter global financial conditions (mostly due to higher U.S. rates and a higher U.S. dollar), increased protectionism (increased tension between the U.S. and China), and a slowing Chinese economy (due to policy-induced de-leveraging). Apart from these overarching themes, many emerging market countries also had to deal with their own idiosyncratic challenges: Argentina (current account crisis), Turkey (liquidity and politics), South Africa (internal party politics), Mexico (elections – far left wins), Brazil (elections – far right wins), India (slowing economy), Malaysia (election – surprise loss for incumbent), and Saudi Arabia (diplomatic crisis). Lower commodity prices added another headache to the commodity-exporting emerging markets, mostly in Latin America, Africa, and the Middle East.

Unsurprisingly, valuations and earnings expectations have also adjusted downward throughout 2018. As a result, emerging market valuations are attractive and positioning was not as stretched as at the beginning of 2018. However, whether this would translate into positive returns for the year will depend on the broader macro backdrop. A so-called Fed relent (the U.S. Federal Reserve Board (Fed) stepping away from further rate hikes and balance sheet unwinding), and China being able to stabilize growth between 6.0% and 6.5%, will be critical to the overall performance of emerging market assets. We expect overall emerging market growth to slow somewhat in 2019 compared to 2018, and the growth gap between emerging markets and developed markets to widen – an important driver of relative equity performance. Furthermore, healthy banking systems across most emerging markets (China and India being the most obvious exceptions), robust government debt dynamics in many emerging markets, manageable inflation expectations, credible policies, and more realistic earnings expectations should provide support for emerging market equities in 2019 and positive annual returns are not off the table.

On the risk side, volatility is expected to increase as the global economy is getting closer to the end of the cycle and the policy paths of the major economies become more ambiguous. Political uncertainties in many regions and countries further complicate the outlook for 2019.

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We enter 2019 with fund positioning being moderately defensive, having reduced our exposures to the energy, materials, and technology sectors in Q4 2018 and keeping an underweight in discretionary spending and the real estate sector. However, despite the risks and uncertainties, we are cautiously optimistic over a six- to 12-month horizon and are looking at opportunities to re-engage emerging market assets.

Class F Returns (in %) as at December 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Emerging Markets Fund	-9.4	-9.4	6.2	4.9	8.3

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