Market Commentary
Fourth Quarter 2018

PICTON MAHONEY Asset Management

Synergy Canadian Corporate Class

Looking back

An ominous mile marker was passed in the fourth quarter as most global equity markets are either in, or approaching, bear market territory (a 20% correction from highs). For most of the quarter, there was massive sector rotation with profit taking on longtime sector winners (information technology, industrials) in favour of defensive sectors. Driving this rotation were global growth concerns as fewer economies are in expansion, as the breadth of PMIs (Purchasing Managers' Index), a leading indicator on manufacturing activity, has fallen below 75%, to the lowest level in years. The divergent growth path of the U.S. versus the rest of the world has created unintended risks, as the pace and vigour of U.S. interest rate hikes strengthened the U.S. dollar. A strong dollar acts as a brake on global growth and a delicate balance was in place given volatility in emerging markets. Not so quietly, this balancing act shifted during the quarter, driving equity markets lower.

Looking at fund-specific performance

For the quarter ended December 31, 2018, Synergy Canadian Corporate Class (Class F) returned -11.7%, underperforming the -10.1% return of the S&P/TSX Composite Index. Our overweight position in health care and underweight position in materials detracted from relative performance. The largest individual detractors were BRP and Apple. Our underweight position in energy and overweight position in consumer staples added to relative performance. Top-performing holdings were Suncor Energy and Canadian Imperial Bank of Commerce.

Looking ahead

We continue to believe that the U.S. has reached the later stages of the economic cycle and its ongoing strength is forcing a tightening cycle that the rest of the world may not be able to afford. With the U.S. Federal Reserve Board's (Fed's) focus on raising rates to normalize liquidity, they may be underestimating the impact of deteriorating global growth. By the time the impact is felt within the U.S. economy, it could be too late to right the course of the global economy. However, if the Fed acknowledges stresses around the globe and pauses the rate hike cycle, equity markets should react favourably as evident in past cycles.

Class F Returns (in %) as at December 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
Synergy Canadian Corporate Class	-7.9	-7.9	2.6	3.8	8.2

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Published January 2019.