Market Commentary
Fourth Quarter 2018

PICTON MAHONEY Asset Management

Synergy Global Corporate Class

Looking back

After diverging for much of the year, U.S. equities re-coupled with the rest of the world, joining the sell-off that prevailed in the other regions. Fears of a U.S. Federal Reserve Board (Fed) policy mistake, along with an escalating U.S./China trade dispute, added to the mound of worries (Brexit, European Central Bank ending quantitative easing, Italian budget concerns, and weakening Chinese economic data) for investors.

These uncertainties caused businesses to hesitate on their investment decisions, consumers to slow their purchases, and investors to reduce their exposures. Global leadership/higher growth companies sold off more aggressively from funds de-grossing, and there was a general move to defensiveness given the lack of economic and policy clarity. These types of rotation are generally challenging for our positive change investment style.

No market was left unscathed as all the major equity benchmarks were down over 10% in the quarter. Volatility picked up considerably as investors no longer had the “buy the dip” mentality in their head. This, along with the blackout period in corporate buybacks and a lull in holiday trading volume, exaggerated the price moves at the end of the quarter.

Looking at fund-specific performance

For the last quarter ended December 31, 2018, Synergy Global Corporate Class (Class F) returned -11.5%, underperforming the -8.28% return of the S&P Developed Large Mid Cap Total Return Index (C$). Our underweight positions in consumer staples and utilities detracted from relative performance. The largest individual detractors were Nippon Carbon and Michael Kors Holdings. Our underweight position in energy and overweight position in real estate added to relative performance. Top-performing holdings were Facebook and Exxon Mobil.

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 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 Global Corporate Class	-5.7	-5.7	2.0	7.1	9.4

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