Market Commentary
Third Quarter 2018

PICTON MAHONEY
Asset Management

Synergy Canadian Corporate Class

The third quarter was marked by an escalation of trade tensions as the Trump administration's rhetoric was felt in various geographies and jurisdictions. To the extent that NAFTA negotiations had dragged on, the quarter ended with resolution in the form of the United States–Mexico–Canada Agreement (USMCA). Given what was at risk for Canada, the various puts and takes appeared to come out far better than wide-scale punitive tariffs which were threatened over much of the past year.

In broader macroeconomic trends, for some time now, we have noted divergences in the global synchronized growth narrative which was prevalent in 2017. The U.S. economy seems to be firing on all cylinders while many developed and emerging economies worldwide exhibit some unease in marching along the rate hike path that the U.S. Federal Reserve seems to have set. Canada, for its part, has exhibited some decent headline economic performance, but structural challenges remain, leaving our equity market lagging global peers. Late cycle dynamics (i.e. inflation impulse) do not appear to be rewarding Canada to the same degree they would have historically.

In this context, Canada offers managers focused on active share an opportunity to outperform. Among other risks, the ripple effects from private sector indebtedness, coupled with fiscal imbalance at both the private and public sector level will be a headwind for financials – a sector which remains one of the largest active underweights in the portfolio.

Synergy Canadian Corporate Class (Class F) returned 1.0% during the quarter. Our overweight positioning in health care and underweight materials added to performance. Top-performing holdings were Parkland Fuel and Enbridge. Our overweight positioning in consumer discretionary and underweight in financials detracted from relative performance. The largest individual detractors were Canopy Growth Corporation, which the fund did not own, and an underweight position in Canadian National Railway.

As we approach year-end, we continue to believe that Canada, at the very least, represents a stock-picker's market, where active share is an attribute to be sought after. Further opportunities to add value can be garnered through active sector over- and underweights. Progressively, as the world bides time until the next global recession, Canada will continue to exhibit risks largely attributable to structural deficiencies in our economy, not the least of which is the impact of rising interest rates on consumption which has been long aided by wealth effects from housing gains. The fund thus retains a meaningful underweight in financials in favour of health care and technology. Overall, sector positioning has not shifted dramatically, as structural biases have been in place for some time.

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Class F Returns (in %) as at September 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Synergy Canadian Corporate Class	4.2	8.4	8.0	8.5	7.5

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