Market Commentary
Third Quarter 2018

PICTON MAHONEY
Asset Management

Synergy Global Corporate Class

The theme of the third quarter was divergence, with the U.S. equity market significantly outperforming the rest of the world. Investors rotated out of Europe as concerns about a Euro crisis resurfaced. Emerging markets sold off on fears of a trade war between the U.S. and China. This was on top of the fear of a negative impact of rising rates and a stronger dollar on countries with large current account surpluses.

For now, much of performance is driven by sentiment rather than fundamentals. Excluding the lift that U.S. corporations have enjoyed from the tax cuts, earnings growth has been fairly comparable across regions. Hence, the rest of the world has simply de-rated on macro fears.

The one bright spot internationally has been Japan, where the Bank of Japan has quietly allowed the yield curve to steepen and the currency to weaken. This has renewed foreign investors' interest in this under-owned market. In this case, both foreign exporters, which benefit from a weaker yen, and financials, which benefit from higher yields, are being bought.

Synergy Global Corporate Class (Class F) returned 3.2% for the quarter. Our overweight positioning in real estate and underweight in information technology detracted from performance. The largest individual detractors were Fu Shou Yuan International Group and Ternium S.A. Sponsored ADR. Our underweight positioning in consumer staples and underweight in energy added to performance. The top-performing holdings were SoftBank Group and HealthEquity.

In broader macroeconomic trends, for some time now, we have noted divergences in the global synchronized growth narrative that 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 interest rate hike path which the U.S. Federal Reserve seems to have set. Issues in emerging economies like Turkey and Argentina and in developed economies like Italy should not be thought of in isolation – rather, they are indicative of the trouble the world may have adjusting to higher interest rates. In this context, we continue to believe there will be ample opportunity for decisive allocations in the near-term, but a broader risk management mindset will ultimately benefit investors as the world bides time until the next global recession. For now, we remain constructive, but are increasingly vigilant given our observation of deteriorating market leadership and other telltale signs of an eventual market top.

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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 Global Corporate Class	6.5	12.8	8.9	12.5	9.5

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