Market Commentary
Second Quarter 2018

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Investment Partners

CI Global High Dividend Advantage Fund

Stocks had solid gains in local currency over the quarter, helped by supportive economic data and strong corporate results. This was particularly true in the U.S., where tax expenses declined for many companies even as pretax income grew, leading to the strongest quarterly results in years. Trade tensions undermined some of the positive sentiment, however, as the U.S. and China unveiled plans for additional tariffs worth billions. The U.S. dollar strengthened against other major currencies. Emerging equity markets declined sharply.

Economic expansion in the Eurozone slowed from 2017's strong pace, with little agreement on whether this was due to temporary or structural factors. The main headlines, however, were political. The coalition government in Germany appeared increasingly fragile, the path to Brexit remained murky, and new governments came to power in Spain and Italy. The European Central Bank (ECB) laid out plans to wind down its bond-buying program by December, but gave assurances that interest rates would remain low through the summer of 2019. While ECB officials provided an upbeat assessment of the Eurozone economy, the Bank of England put rate hikes on hold due to weaker-than-expected economic data.

In the Pacific region, Japanese stocks had positive returns in local currency. However, the economy contracted, ending an eight-quarter streak of expansion. Australian stocks were up sharply after lagging in the previous year.

The most significant detractors were the fund's underweight position in the information technology sector combined with weak stock selection in the sector. Additional detractors include stock selection in the consumer discretionary and consumer staples sectors, and an overweight allocation to telecommunication services. Underweight positions in the financials sector and stock selection within the real estate and telecommunication services sectors helped to offset some of the portfolio underperformance.

The largest individual contributors were Occidental Petroleum, Welltower, Royal Dutch Shell, Total, and Imperial Brands. The largest individual detractors from relative performance were Philip Morris International, Deutsche Post, Daimler, Orkla, and British American Tobacco.

Investments were made in Unibail-Rodamco-Westfield, Macquarie Group, and BB&T during the period.

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Unibail-Rodamco-Westfield is a real estate company that owns a diversified portfolio of high-end shopping malls in Europe, London, and the U.S. The company was recently renamed following the acquisition of Westfield by Unibail-Rodamco. By focusing on premium, flagship malls, the company is well-positioned for evolving consumer retail shopping preferences. Unibail is committed to paying an attractive dividend with future growth supported by an extensive pipeline of projects to be executed in coming years. BB&T is a large, regional bank serving retail and business clients across the south and southeastern U.S. Modest loan growth, fee income, and cost initiatives are expected to drive earnings growth, while small, opportunistic, bolt-on acquisitions are used to strengthen existing business lines. Credit quality remains solid, and ROE is strong. The company returns excess cash flow to shareholders with an attractive, growing dividend and share repurchases. Macquarie Group is a broadly diversified global financial services firm engaged in asset management, infrastructure and real estate investing, leasing, commercial and consumer lending, commodities trading, M&A advisory services, and capital market activities. The diverse portfolio of business supports stable growth in operating income as Macquarie continues to expand assets under management, finance infrastructure transactions globally, and expand lending activities in line with global gross domestic product, which is expected to be reflected in an attractive, growing dividend. Special dividends and share repurchases are used to return excess capital.

In the U.S., the labour market is tight, domestic demand is solid and the production side of the economy has picked up markedly. This provides a robust backdrop for earnings in the coming quarters, with the Tax Cuts and Jobs Act providing a short-term boost to growth. Wage and price inflation is increasing, but by less than in a typical cycle, likely due to technology. Also supporting equities is the adoption of new technologies, which is positive for all three return-on-equity components: profit margins, asset utilization, and leverage. Among other things, this implies corporate margins can remain high for a prolonged period. It also suggests companies can return a higher proportion of cash to shareholders.

Offsetting these supportive elements is the shift from easing to tightening among central banks in North America and Europe. With this in mind, we do not expect equities to benefit from expanding valuation multiples. Along with quantitative tightening, there is a risk that soaring U.S. budget deficits and a wave of corporate bonds maturing could not only engender more volatility and wider credit spreads, but it could also push interest rates higher. Each of these outcomes would be a headwind for high-duration strategies. Finally, we expect trade tensions to remain a market theme, and a source of volatility, for years to come. While the risk of an outright trade war causing a recession is increasing, we think this outcome is unlikely.

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Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
CI Global High Dividend Advantage Fund	-1.7	2.3	5.6	9.3	7.3