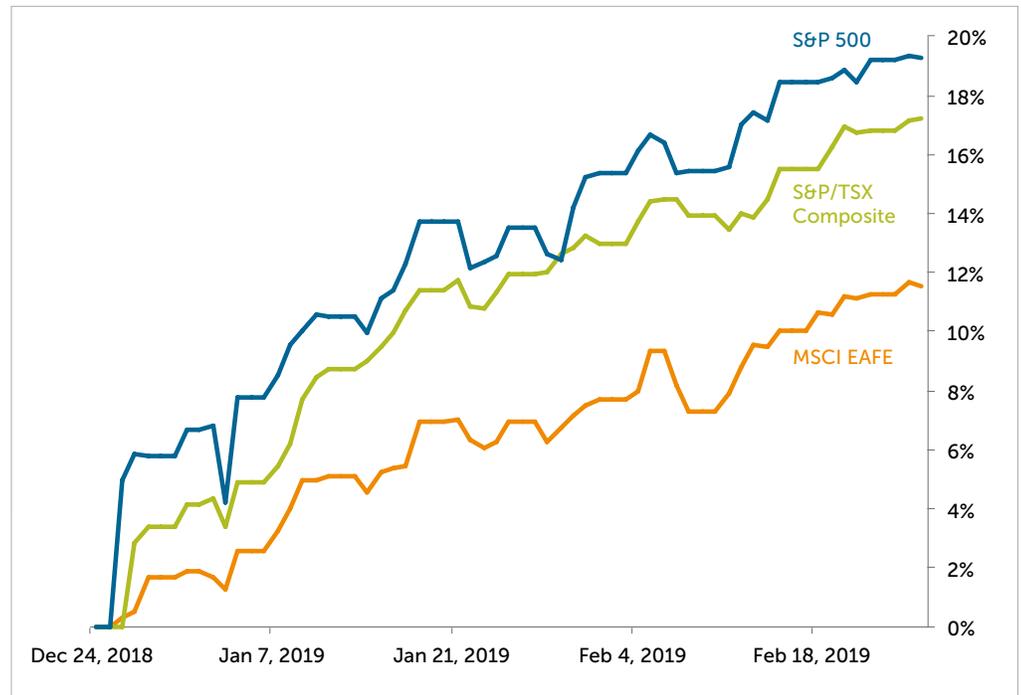


## MARKET UPDATE

February 26, 2019

Earlier today we held our monthly Investment Strategy meeting with the entire Investment Team. I thought I'd take this opportunity to share our market views.

If you weren't already aware, equity markets have experienced quite a rebound from the challenging conditions towards the end of 2018. Since the near term market lows about two months ago, the S&P/TSX Composite has gained 17%, the S&P 500 19%, and the MSCI EAFE index about 11%. That's a very strong move in such a short period of time.



source: Bloomberg - total returns, local currency

The bond market reacted relatively well to this risk-on environment, with the 10 year U.S. Treasury bond actually seeing a modest yield decline over the period. Credit markets, as would be expected, performed well with spreads generally tightening back to November (2018) levels.

Potential factors driving the rally were increasing market optimism around some kind of resolution to the U.S. / China trade dispute, the U.S. Federal Reserve unlikely to be raising interest rates again for the year, respectable earnings results, and a bounce off oversold levels.

One point I want to emphasize is the importance of staying disciplined in the face of short term volatility - in fact, this was the subject of the previous issue of this piece (Nov 2, 2018). Around that time we faced increasing questions about what we were doing to offset increased market volatility and whether or not we were raising cash. The answer - we held firm in our principle of owning shares in high quality



## FROM THE DESK OF

**Ian Hardacre**, MBA, CFA

SVP and Chief Investment Officer, Empire Life

Chief Investment Officer, Empire Life Investments Inc.

companies at attractive valuations. Not only did we not run and hide from the volatility, we took the opportunity to add to positions that either presented tremendous value Brookfield Property LP., or those in very high quality companies that were previously too expensive for our liking such as BRP Inc. Had it not been for our convictions, the sharp rally that followed may have been something we witnessed and not participated in.

That being said and given the sharp advance in equities, our overall view has shifted incrementally to a more defensive tone. The velocity of the market's price advance far outpaced any advance in fundamentals. Today, value opportunities are not as attractive as they were two months ago. The first order effects of U.S. tax reform are now largely in the rear view mirror, and as we head further into 2019, markets are more likely to focus on 2020 earnings, which likely encompass greater risk of earnings disappointment given prevailing fundamentals. This is not to say we are forecasting a major bear market in the near term, think of it more as an adjustment of market expectations to current fundamentals.

In terms of portfolio positioning, our U.S. equity mandate incrementally trimmed select positions that performed well in the portfolio, and added to more defensive areas, such as Utilities. In our international equity mandate any new additions are subject to an assessment of how they are likely to perform in a down market. Our Canadian equity mandates continue to have large absolute positions in both Energy and Financials, we believe both sectors represent excellent value, as always we are biased to the high quality well managed names. The Emblem portfolios have been accumulating cash in anticipation of more attractive future valuations. Lastly, our corporate and high yield bond portfolios remain conservatively positioned, as credit spreads over government bonds are now back to near historic lows.

Ian Hardacre, MBA, CFA, SVP, CIO, Empire Life

This document includes forward-looking information that is based on the opinions and views of Empire Life Investments Inc. as of the date stated and is subject to change without notice. This information should not be considered a recommendation to buy or sell nor should they be relied upon as investment, tax or legal advice. Information contained in this report has been obtained from third party sources believed to be reliable, but accuracy cannot be guaranteed. Empire Life Investments Inc. and its affiliates do not warrant or make any representations regarding the use or the results of the information contained herein in terms of its correctness, accuracy, timeliness, reliability, or otherwise, and do not accept any responsibility for any loss or damage that results from its use.

Empire Life Investments Inc., a wholly owned-subsiary of The Empire Life Insurance Company, is the Manager of Empire Life Mutual Funds and the Portfolio Manager of Empire Life Segregated Funds. The units of the Funds are available only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such units. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund and segregated fund investments. Investments are not guaranteed, their values change frequently, and past performance may not be repeated. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value.** A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. Segregated Fund policies are issued by The Empire Life Insurance Company.

® Registered trademark of The Empire Life Insurance Company.

 For more information on products visit [empire.ca](http://empire.ca).