FROM THE DESK OF

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MARKET UPDATE

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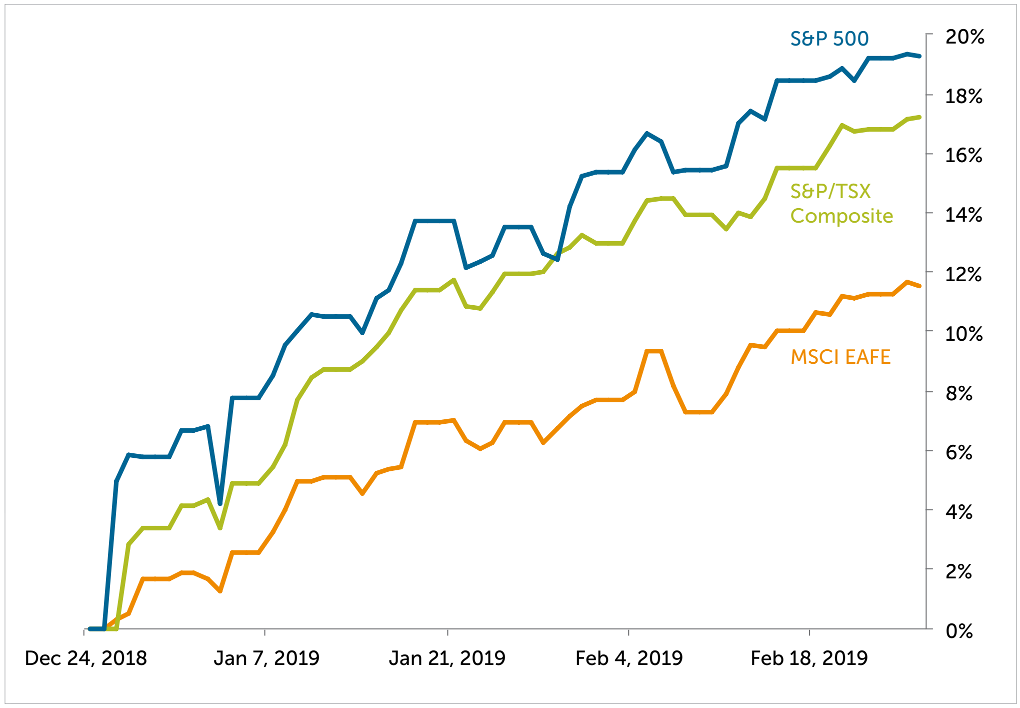
Earlier today we held our monthly Investment Strategy meeting with the entire Investment Team. I thought I'd take this opportunity to share our market views.

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

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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.

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