

Fundamental/Technical Outlook

Global growth is slowing, inflation is stable, and central banks have turned cautious – creating a positive backdrop for interest rates. Interest rate markets are now pricing almost a full cut in the Federal Funds rate by the end of 2020. Risk markets are also having a very strong start to the year, with investors focused on a “patient” U.S. Federal Reserve, more attractive earnings valuations, and earnings growth that’s coming in better than originally feared. The question is: which market can continue to rally, rates or risk? Rates shouldn’t be able to rally from here unless growth slows further, especially given the supply overhang of the deficit. But risk shouldn’t be able to rally further, if indeed global growth is slowing.

Simplistically, the world has two engines of growth: the U.S. and China. The first engine, China, has been slowing mostly because of past macroprudential policy tightening with the added catalyst of a hostile U.S. Administration. Over the past year, the Chinese policymakers have pivoted to targeted easing, but the scale of the policy measures, thus far, are still relatively modest. The second engine, the U.S., will experience a fading fiscal impulse in 2019, at the same time as past Federal Reserve tightening measures will be increasingly felt. Unlike in China, the Federal Reserve has only paused not pivoted. Our view is that the Federal Reserve will take their cue from rate markets, not the other way around; i.e., if growth is better and rate markets begin to price in hikes, the Fed will turn hawkish and if the opposite happens, the Fed will turn dovish.

In addition to the dynamics of global growth and policy, the balance of supply and demand in fixed income markets will be an important factor to watch over the course of the year. We know there will be a large amount of supply in the U.S. Treasury market and expect significant issuance in the investment grade bond market. This supply will be coming at a time when the Federal Reserve balance sheet is still shrinking in size, but we’ll save that discussion for another month.

The overall economic and policy environment is supportive of benchmark duration. However, the expectations priced into rates is, in our view, inconsistent with the pricing of risk markets. We expect risk markets to remain elevated for a period and interest rate markets to stabilize at higher yields until signs of further pressure on global growth are clearer. We are tactically underweight duration and will look to get closer to benchmark duration in the 2.85% to 2.95% area on 10-year U.S. Treasuries.

Fund Positioning

Overall duration: Underweight

Cross-currency: Overweight the U.S. vs Canada

Maturity: Overweight 10-yr vs front-end and 30-yr

Key Transactions

- Modestly increased duration, primarily with Government of Canada 10-yr bonds.

**Barry Allan, MBA**

President & Chief Investment Officer
Marret Asset Management Inc.

**Paul Sandhu**

Vice-President and Portfolio Manager
Marret Asset Management Inc.

**Adam Tuer, CFA, PhD**

Portfolio Manager
Marret Asset Management Inc.

1 (877) 642-1289 | www.firstasset.com | info@firstasset.com



First Asset - Smart Solutions™

First Asset, a CI Financial Company, is a Canadian investment firm delivering a comprehensive suite of smart ETF solutions. Rooted in strong fundamentals, First Asset's smart solutions strive to deliver better risk-adjusted returns than the broad market while helping investors achieve their personal financial goals.

This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual. Particular investments and/or trading strategies should be evaluated relative to each individual's circumstances. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment.

Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the prospectus before investing. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated. The indicated rates of return of the Fund are the historical annual compounded total returns, including changes in unit value and do not take into account sales, redemption or optional charges or income taxes payable by a security holder that would have reduced returns. Performance is calculated net of fees. You will usually pay brokerage fees to your dealer if you purchase or sell units of the Fund on the Toronto Stock Exchange ("TSX"). If the units are purchased or sold on the TSX, investors may pay more than the current net asset value when buying units of the Fund and may receive less than the current net asset value when selling them. There are ongoing fees and expenses associated with owning units of the Fund. The Fund must prepare disclosure documents that contain key information about the Fund. You can find more detailed information about the Fund in these documents.

The opinions contained in this document are solely those of the Portfolio Manager, Marret Asset Management Inc., at the indicated date of the information and are subject to change without notice. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward-looking statements reflect the Portfolio Manager's current expectations or forecasts of future events and are based on information currently available to the Portfolio Manager. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. These factors include, but are not limited to, general economic, political and market factors globally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events. First Asset and the Portfolio Manager do not undertake any obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as expressly required by law. This document includes information that has been obtained from third party sources. Although the Portfolio Manager believes that these independent sources are generally reliable, the accuracy and completeness of such information is not guaranteed and has not been independently verified. The Portfolio Manager and First Asset assume no responsibility for any losses or damages, whether direct or indirect, which arise from the use of this information and expressly disclaims liability for any errors or omissions in this information. The Fund is managed by First Asset Investment Management Inc. ("First Asset"), a subsidiary of CI Financial Corp., which is listed on the Toronto Stock Exchange under the symbol "CIX". ™First Asset and its logo are trademarks of a subsidiary of CI Financial Corp. ©CI FINANCIAL is a registered trademark of CI Investment Inc., used under license. Marret Asset Management Inc is a subsidiary of CI Financial Corp and an affiliate of First Asset. Published on January 29, 2019.