For the week ending January 18, 2019

Optimism over U.S.-China trade negotiations gave risk assets a strong bid this week. Specifically, a rumor that the U.S. might consider dropping some of its newly initiated tariffs to help speed up negotiations (later denied), and a proposal from China to eliminate the trade deficit with the U.S. within six years (no details provided) helped buoy sentiment. Major stock indices in North America rose over 2%. Alongside equities, credit markets had a strong showing with the U.S. Investment Grade Corporate Credit Default Index (CDX) tightening five basis points. It is notable that the rally in risk assets took place despite continued tepid economic releases and weaker than expected Q4 earnings. It is for these reasons, that we see the current rally in risk assets as corrective rather than a reversal of the Q4 2018 decline. The S&P 500 Index closed the week at 2670 – a break of 2735 would negate the corrective nature of the current price action and potentially signal stronger risk asset performance.

Cash investment-grade corporate credit spreads were solidly bid as it appears that dealers have very little inventory and new issues are getting strong support. Cash credit spreads were 5-15 basis points tighter in the U.S. market. As we have seen since the outset of the year, credit market performance remains bifurcated, with the high-quality liquid names vastly outperforming the lower quality names. Based on the Bloomberg Barclays Aggregate Corporate Average OAS indices, investment-grade corporate credit spreads in Canada, Europe and the U.K. outperformed the U.S., declining 6, 7 and 7 basis points, respectively. The comparable U.S. index declined five basis points.

Government bond yields rose globally, with 10-year bond yields in the U.S. and Canada up eight basis points, the U.K. up six basis points and Germany two basis points higher. The Canadian government bond market was outperforming the U.S. all week, but Friday's higher than expected Canadian CPI numbers evened the performance. Headline CPI in Canada was much higher than expected at 2.0% versus consensus estimates of 1.7%. The anticipated weakness in energy prices was offset by higher airfares and services inflation. The core measures of Canadian CPI were pretty much in line at 1.9%.

Portfolio Transactions

Consistent with our view, we have continued to sell corporate credit into the rally. That process was accelerated this week as we sold InBev 2024, HSBC 2023, CIBC 2028, CNQ 2047 and Metro 2022 in Canadian dollars, and CVS 2023, CVS 2022, BNP 2033 Glencore 2027, AerCap 2027, CCI 2028 and Goldman Sachs 2045 in the U.S. market. Over the course of January, we have reduced exposure to credit in First Asset Investment Grade Bond ETF (the "Fund"), on a duration adjusted basis, by 9%.

On January 18, 2019, near the highs in government bond yields, we increased duration of the Fund by 0.20 years to approximately six years. Over the course of the week, five trades adjusting duration up to 0.5 years were instituted using government bond futures. Each of these was unwound at a profit.

MARRET ASSET MANAGEMENT INC.

Paul Sandhu

Vice-President and Portfolio Manager
Marret Asset Management Inc.

Paul Sandhu has 29 years of domestic and international fixed income experience. Prior to joining Marret, Paul was responsible for the global distribution of Canadian fixed income and money market products at BMO Capital Markets. Through offices in Toronto, Montreal, Vancouver, New York, London and Hong Kong, Paul was directly responsible for advising the world's largest fixed income asset managers on portfolio strategy, asset mix, security selection and alpha/beta generation.

Paul's career also includes positions with Goldman Sachs and Citibank in Europe, the United States and Canada.

Paul holds a B.A. (Economics and Political Science) from the University of British Columbia and a Masters in Public Administration from the University of Victoria.

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