

For the week ending February 8, 2019

Economic data globally, continued to come in weaker than expected. This prompted certain central banks (Reserve Bank of Australia, Bank of England and European Central Bank) to either lean dovish and/or reduce 2019/2020 economic growth forecasts. Government bonds rallied with 10-year yields falling 5-10 basis points across industrialized markets. The U.K. bond market was the outperformer, as the Bank of England highlighted the increasing risks to the economy due to the looming Brexit deadline (March 29, 2019). Risk assets were mixed as the pause in the central bank rate hiking momentum is good news, but the growth data was negative. At this point, risk assets appear to be hoping that economic growth will stabilize, and earnings will hit targets which have been revised lower. This is not necessarily a view we share.

The Canadian employment and housing starts numbers, published on February 8, were the two data prints last week that surprised to the upside. January 2019 employment in Canada grew by 66,800 relative to expectations of a 5,000 increase. The guts of the data were sound, with the mix of full-time and part-time jobs showing healthy and reasonable growth across industry sectors and provinces. The unemployment rate rose from 5.7% to 5.8% due to a small nudge higher in the participation rate. Hourly wages rose from 1.6% to 1.8%, but still remain muted. Housing starts were modestly higher than expectations at 208,000 versus the 205,000 consensus estimate.

The Canadian bond market initially traded lower on the employment data but recovered on weakness in oil prices. On the week, 10-year Canada government bonds were eight basis points lower in yield, closing at 1.88% on February 8.

Investment-grade corporate credit spreads had a mixed week. Based on the Bloomberg Barclays Aggregate Corporate Average OAS Indices, spreads were 1, 1 and 3 basis points tighter in the U.S., Canada and Europe, respectively. However, the performance of spreads was mixed across industries with Energy and Financials wider and TMT (Technology, Media, Telecommunications), Utilities and Insurance broadly tighter. In the U.K., Brexit worries caused spreads to widen with the above-noted U.K. credit index widening two basis points on the week.

Year-to-date, investment-grade spreads have had an impressive rally. A correction from December's oversold levels, aggressive foreign buying, tempered central bank rate hike expectations and low new issuance have all supported credit spreads. Continued deterioration in the macro-economic backdrop, potential for weaker earnings growth and excessive corporate leverage have been relegated to the sidelines for now. So, for the time being, market technicals are outweighing fundamentals. If economic growth does not stabilize, particularly abroad, the current rally in credit may be misplaced.

Consistent with our comments above regarding low new issuance, it was another light week in the Canadian investment-grade corporate market. One issuer ventured into the market and the details are as follows:

- Canadian National Railway \$350mm 3.0% 02/08/2029 +110.7 bps
- Canadian National Railway \$450mm 3.6% 02/08/2049 +145.0 bps

The First Asset Investment Grade Bond ETF (the "Fund") did not participate in these new issues.

Portfolio Transactions

Portfolio duration for the Fund ranged between 5.75 and 6.05 years over the week. Six trades, utilizing 5 and 30-year U.S. Treasury futures contracts and 10-year U.S. Treasury cash bonds, were executed to manage duration. The five futures trades were unwound at a profit. The cash U.S. Treasury 10-year trade (a short position) has been maintained and is currently out of the money.

There were no changes to the Fund's credit positions this week.



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.

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.

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 February 11, 2019.