

March 2018

## Volatility has returned

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In February 2018, stock markets experienced more volatility in one month than in all of 2017. Last year, the maximum drawdown of the S&P 500 Index was -2.8%, meaning that any investor who bought at the top of the market and sold at the bottom would have lost 2.8%. In February, the maximum drawdown was -8.6%. Market sentiments have changed.

The strategy of buying any investment at any price may have worked well in 2017 but likely will not work going forward. This could cause many investors who invested based on gut feelings and profited because of luck, to leave the market. As these investors depart, the demand for investments will likely decrease and elevated prices may begin to fall, leading to a more sustainable economy. Economic conditions have generally been improving due to extended periods of low interest rates and were further boosted by the recent tax cuts announced in the United States.

The market correction in February was aggressive but short-lived, as the S&P 500 Index rallied 8% from its low in a matter of three weeks. Our risk overlay strategy added value during the volatility and we remain committed to using the strategy to protect the portfolio downside.

U.S. President Donald Trump has proposed aggressive tariffs on steel and aluminum exported to the United States. Globalization and free trade are being tested and the outcome remains unknown. At one extreme, the tariffs and a trade war could lead a recession in 2019. This would also mean that central banks likely would take monetary policy in a new direction. Should they put a brake on interest rate hikes, government bond prices may rise and start a new bull market.

We recently decreased our U.S. dollar exposure through hedging. Deficits and high debt are weighing on the U.S. dollar. For every dollar of investment in U.S.-denominated assets, our investors carry an exposure of less than 50 cents.

While the core holdings in our portfolios have not changed dramatically from month to month, our cash level has fallen as our underlying managers identified opportunities to initiate new positions during the recent correction.

*Combined top 15 equity holdings as of February 28, 2018 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:*

1. Canadian Natural Resources	6. AltaGas	11. Walgreens Boots Alliance
2. Atco	7. E-L Financial	12. Apple
3. Toronto-Dominion Bank	8. Bank of Nova Scotia	13. Capgemini
4. SNC-Lavalin	9. Industrial Alliance	14. Franco-Nevada
5. Suncor Energy	10. Athene Holding	15. UnitedHealth

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