

# LF CANLIFE PORTFOLIO FUNDS: Q3 2018 UPDATE

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Equity and bond markets struggled in the third quarter as investors dealt with a number of contrasting issues, both geopolitical and economic in nature. In the emerging markets we began to see the first signs of a currency crisis in countries such as Turkey which, if it spreads, could have an impact on the outlook for global growth. In the developed world, inflation remains stubbornly high in the US and UK, which has caused fears that interest rates could be hiked faster than expected, particularly in the US.

Combined with Brexit uncertainty, trade war rhetoric, the rise of Italian populism and excessive valuations in the more 'high growth' areas of the market this resulted in both equities and bonds selling off in the third quarter. For example, 10 year UK gilt yields moved from 1.2% in July to 1.6% in September, the highest levels seen since 2016. This impacted the performance of our government and corporate bond holdings, although the spreads available on corporates helped cushion the price falls. Elsewhere, the commercial property market continued to deliver stability, with industrial units in particular performing well.

Global equity markets also sold off, with Asia particularly weak. The higher risk Portfolio Funds suffered more as a result, given their higher weighting to risk assets. Broadly speaking, we are ten years into an equity bull market and are arguably late in the cycle. As a result, any negative sentiment is weighing more heavily on the equity market and we were due a correction at some point. However, we still remain positive on the asset class, although returns are likely to be more subdued in the future.



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CLI01308 Expiry on 31 January 2019