



## Cambridge Asset Allocation Committee Outlook

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We recently held our quarterly Asset Allocation Committee meeting, where several Cambridge Global Asset Management (“Cambridge”) team members meet to discuss key questions that drive the investment decisions we are making for our clients: What has changed since the last quarter? How have our balanced funds been performing? Where are we seeing good risk/reward opportunities across different asset classes? Do we need to make any asset mix changes to our balanced portfolio given our outlook?

While several members of Cambridge’s investment team participate in sharing their views, ultimate responsibilities are held by the portfolio managers of each balanced fund (i.e., Brandon Snow, Bob Swanson\* and Paul Marcogliese).

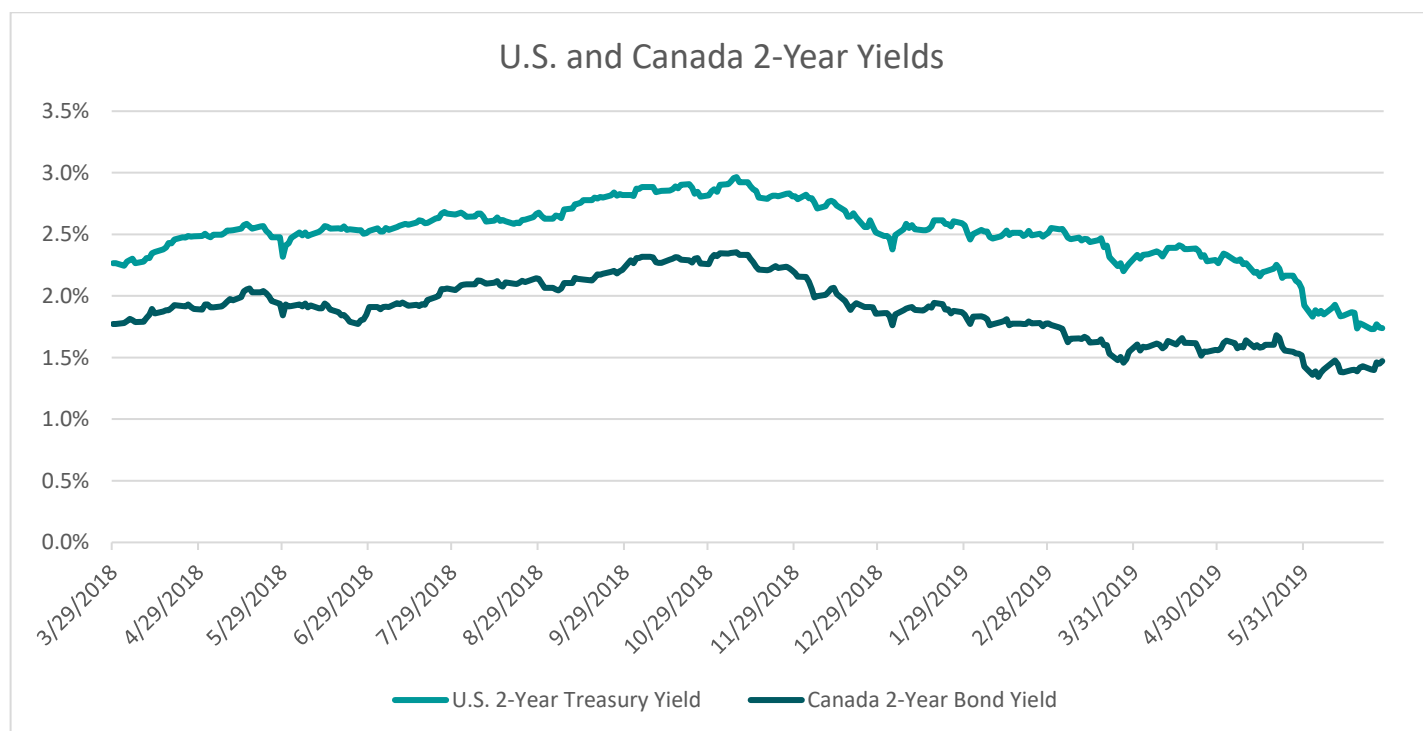
As discussed in our latest meeting, we believe that while some things have changed around the margins, our fundamental views remain largely consistent with what we said a few months ago.

During our first-quarter 2019 meeting, we continued to monitor signals that global economic growth has peaked and is slowing, and we took the opportunity to reduce each fund’s target equity weight by about three percentage points, with a corresponding increase to fixed-income exposure. Since then, we have not seen anything of significance to change our view and continue to see weakening underlying conditions for growth in the global economy. Thus, over the second quarter of 2019, we continued to reduce equity exposure across our asset-allocation funds. As a result, the equity weight in Cambridge Asset Allocation Fund has been reduced to 47%, a one-percentage-point decline from the previous quarter.

During the second quarter of 2019, global economic growth continued to slow (albeit with conflicting data points as the Institute of Supply Management’s Manufacturing New Orders Index firmed and the services component of the Purchasing Managers’ Index bounced back in May), with leading economic indicators across Organisation for Economic Co-operation and Development (OECD, for short) countries showing signs of deterioration, while the underlying trends have yet to find a bottom. The slowdown in the Chinese economy, the lagged impact of the U.S. Federal Reserve’s tightening of interest rates and the uncertainty created by trade wars all contributed to the weakening global economy.

\*Associated with CI Global Investments Inc., a firm registered with the U.S. Securities and Exchange Commission and an affiliate of CI Investments Inc.

Furthermore, the yield curve is signalling a deteriorating backdrop for the global economy, which has quickly priced in interest rate cuts. The two-year yield in Canada has fallen significantly, from 1.79% as at March 31, 2019 to 1.47% as at June 30, 2019. Similarly, the U.S. two-year Treasuries are now yielding 1.74% as at June 30 compared to 2.27% as at March 31. These are significant moves and a dramatic change in the narrative from expecting further interest rate hikes only six months ago!



Source: Bloomberg L.P., as at June 28, 2019.

Underneath it all, the Asset Allocation Committee’s fundamental expectations for the economy remain unchanged. While growth is soft, we continue to observe the global economy for signs of further deterioration or re-acceleration. In addition, we are keeping a close eye on insolvency and delinquency rates, while continuing to monitor leading economic indicators closely for signs of stabilization. We believe it is a time to be cautious and particularly vigilant with equity markets near all-time highs and credit spreads priced tight to government bonds.

The good news is this environment plays into the benefits of Cambridge’s deep investment knowledge and our focus on understanding the risks to a potential investment.

Our portfolio managers and analysts remain committed to finding opportunities that offer an attractive risk/reward.

We hope this update from our Asset Allocation Committee sheds light on what we're seeing in the global economy and how that is shaping our views when making the best decisions for you, our clients.



Geoff Scott

Sources: Bloomberg L.P. and Cambridge Global Asset Management, as at June 30, 2019.

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