

# AGFiQ Quarterly Commentary

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## AGFiQ ETFs

### OVERVIEW

Equity markets across the world ended the quarter weak, posting an underwhelming end to 2018. Markets were weighed by concerns regarding global growth, geopolitical issues, rising rates and the longevity of the almost 10-year bull market. Despite previous trade conflicts, some positive rhetoric emerged from the US and China saga, ahead of planned negotiations in January. Shifting to Brexit, the UK, led by Prime Minister Theresa May, continued to fight for a smooth exit from EU.

US economic data was solid with GDP and inflation figures overall in-line with expectations, while employment was strong.

European economic data was largely in-line, while Japanese employment and inflation figures met expectations but GDP numbers were softer than expected. Economic data out of the UK was also in-line, with GDP and inflation both meeting expectations, while employment was stronger than expected to finish the quarter.

Chinese economic data showed signs of moderation as industrial profits, retail sales, and the purchasing managers' index (PMI), an indicator of economic health, all began to soften. Other Chinese economic figures were overall in-line, with GDP and inflation meeting expectations. Other Emerging Market economic data was also in-line with forecasts.

The US Federal Reserve raised rates for the fourth time in 2018, while the Bank of Japan and European Central Bank chose to keep rates steady and continued to adopt a wait-and-see approach citing data dependence and caution on the evolution of international trade. Within the commodity complex, gold was strong, while base metals were weak. Oil was under significant pressure through the quarter, plummeting to \$46/barrel, as uncertainty increased regarding supply and demand moving into 2019. The U.S. Dollar was strong, while U.S. and Japanese 10-year benchmark yields both moved lower, ending slightly below 2.7% and -0.01%, respectively.

### AGFiQ ENHANCED CORE CANADIAN EQUITY ETF (QCD)

- The S&P/TSX Composite Index (-10.1%) was weak through the fourth quarter of 2018. QCD (-7.5%) outperformed the benchmark.
- From a Factor / Style perspective, being overweight Low Volatility and Value added value to the Fund, while being overweight Small Cap detracted value from the Fund.
- From a Sector perspective, being underweight Health Care and Industrials added value to the Fund, while being overweight in Financials detracted value from the Fund.

- Avoiding Encana Corporation and being underweight TD Bank and Bank of Montreal added value to the Fund, while holding CIBC, Nuvista Energy and Methanex Corporation detracted value from the Fund.

#### AGFIQ ENHANCED CORE EMERGING MARKETS EQUITY ETF (QEM)

- The MSCI Emerging Markets Index (-2.1%) was soft through the fourth quarter of 2018 but held up better than most other equity markets. QEM (-3.4%) underperformed the benchmark.
- From a Factor / Style perspective, being overweight Low Volatility added value to the Fund.
- From a Regional perspective, being underweight Mexico and Taiwan and overweight Korea added value to the Fund, while being overweight China and Hong Kong and underweight India and South Africa detracted value from the Fund.
- From Sector perspective, being underweight Industrials added value to the Fund, while being underweight Real Estate and overweight Consumer Staples detracted value from the Fund.
- Being overweight Brazilian Itausa-Investimentos Itau and Brazilian CCR S.A. added value to the Fund, while holding Chinese Baidu Inc. and Chinese Sun Art Retail Group Ltd. detracted value from the Fund.

#### AGFIQ ENHANCED CORE US EQUITY ETF (QUS)

- The S&P 500 Net Return Index (-8.7%) was weak through the fourth quarter of 2018. QUS (-9.2%) underperformed the benchmark.
- From a Factor / Style perspective, being overweight Value and underweight Momentum added value to the Fund, while being overweight both Financial Leverage and Size detracted value from the Fund.
- From a Sector perspective, being underweight Energy and overweight Consumer Discretionary and Real Estate added value to the Fund, while being overweight Health Care and underweight Utilities and Consumer Staples detracted value from the Fund.
- Being overweight AutoZone Inc. and underweight NVIDIA and Amazon.com Inc. added value to the Fund, while holding Celgene Corporation, PG&E Company and Apple Inc. detracted value from the Fund.

#### AGFIQ ENHANCED CORE INTERNATIONAL EQUITY ETF (QIE)

- The MSCI EAFE Net Index (-7.6%) was weak through the quarter. QIE (-5.1%) outperformed the benchmark.
- From a Factor / Style perspective, being underweight Volatility added value to the Fund, while being underweight Size detracted value from the Fund.
- From a Regional perspective, exposure to Asia (Developed Markets) and United Kingdom added value to the Fund, while exposure to Europe, particularly Switzerland, detracted value from the Fund.
- From a Sector perspective, being underweight Industrials and Information Technology and overweight Financials added value to the Fund, while being overweight Materials and underweight Utilities detracted value from the Fund.
- Holding Hong Kong Jardine Matheson Holdings Ltd. contributed most to the Fund, while holding Austrian Voestalpine detracted the most from the Fund.

#### AGFIQ ENHANCED GLOBAL INFRASTRUCTURE ETF (QIF)

- The Dow Jones Brookfield Global Infrastructure Net Index was soft through the quarter but held up better than most other equity markets. QIF outperformed the benchmark.
- From Factor / Style perspective, being overweight Dividend Yield and an underweight to Volatility added value to the Fund.
- From a Regional perspective, being underweight Europe added value to the Fund, while being overweight North America detracted value from the Fund.
- From a Sector perspective, being overweight Energy and REITS added value to the Fund, while being overweight Transportation detracted value from the Fund.
- Being underweight US PG&E Company and overweight US OGE Energy Corporation added value to the Fund, while not owning US Eversource Energy and US SBA Communication detracted value from the Fund.

#### AGFIQ ENHANCED GLOBAL ESG FACTORS ETF (QEF)

- The MSCI All Country World Net Index was weak through the fourth quarter of 2018. QEF slightly outperformed the benchmark.
- From a Factor / Style perspective, being overweight Low Volatility added value to the Fund.
- From Regional perspective, being underweight Emerging Markets added value to the Fund, while being overweight Developed Markets detracted value from the Fund.

- From Sector perspective, being overweight Information Technology and underweight Energy added value to the Fund, while being overweight Financials and underweight Health Care detracted value from the Fund.
- Stock specific risk sources for QEF's ESG score tilting added value to the Fund.
- Being underweight US Apple Inc. and US Amazon.com Inc. and overweight South African Clicks Group Ltd. added value to the Fund, while being overweight Japanese JXTG Holdings, US Philips 66 and Swiss Ferguson PLC detracted value from the Fund.

## AGFiQ Portfolio Solutions

### AGFIQ GLOBAL EQUITY ROTATION ETF (QGL)

- The MSCI All Country World Index (-7.7%) was weak through the fourth quarter of 2018. QGL (-7.9%) posted in-line performance, ending the quarter slightly below the benchmark.
- From a Factor / Style perspective, Foreign Currency Change, Return on Assets (ROA) and EP Spread were among the best factors. Meanwhile, 12 month CDS Change (a proxy for credit risk) and Account Balance of GDP lagged.
- From a Regional perspective, being underweight Europe, Australasia and the Far East (EAFE) added value to the Fund, while being overweight Emerging Markets detracted value from the Fund.
- From a Country perspective, being overweight Brazil contributed the most to the Fund, while being overweight United Kingdom and Switzerland detracted the most from the Fund.

### AGFIQ MULTIASSET ALLOCATION ETF (QMA)

- The blended benchmark (60% MSCI All Country World Index / 40% Bloomberg Barclays Multiverse Index) (-4.1%) was weak through the quarter. QMA (-4.5%) underperformed the benchmark.
- From an Asset Allocation perspective, the Fund maintained a neutral (60/40) allocation to equities and bonds respectively, through the quarter. The overall return of equities was lower than bonds.
- QMA had a higher risk profile than its benchmark in the last 75 days due to its overweight in Emerging Market equities.
- Allocation within Fixed Income detracted value from the Fund. US High Yield and Emerging Market bonds detracted the most value from the Fund. In addition, the US aggregate bond sector detracted value from the Fund due to the tracking error of the

Vanguard US Aggregate bond ETF.

- From a Factor / Style perspective, Momentum Breadth began the period bullish on equities, while the Macroeconomic Indicator began the period bearish on equities. Both factors turned more neutral towards the end of the quarter.

#### AGFIQ MULTIASSET INCOME ALLOCATION ETF (QMY)

- The Bloomberg Barclays Global Aggregate Index (+1.6%) was positive through the quarter. QMY (-3.1%) underperformed the benchmark.
- The Fund had a higher risk profile than its benchmark due to its equity exposures.
- From an Asset Allocation perspective, being overweight iShares Canadian Corporate Bond Index ETF added value to the Fund, while being overweight QEF detracted value from the Fund.
- From a Factor / Style perspective, being overweight iShares Canadian Corporate Bond Index ETF added value to the Fund, as the ETF performed well. Being underweight iShares US Investment Grade Corporate Bond ETF detracted value from the Fund, as the ETF also performed well.

#### ABOUT AGFIQ

We believe discipline makes the difference. Our suite of investment capabilities are powered by a multidisciplinary, intellectually diverse team that combines the complementary strengths of investment professionals from FFCM, LLC. (an adviser registered in the U.S.) and Highstreet Asset Management Inc. (a Canadian registered portfolio manager) – a collaboration we call AGFiQ.

#### **Disclaimer**

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Publication date: January 28, 2019.