"The majority is always right, but what we believe to be "right" rarely comes out of the ballot with more votes behind it."

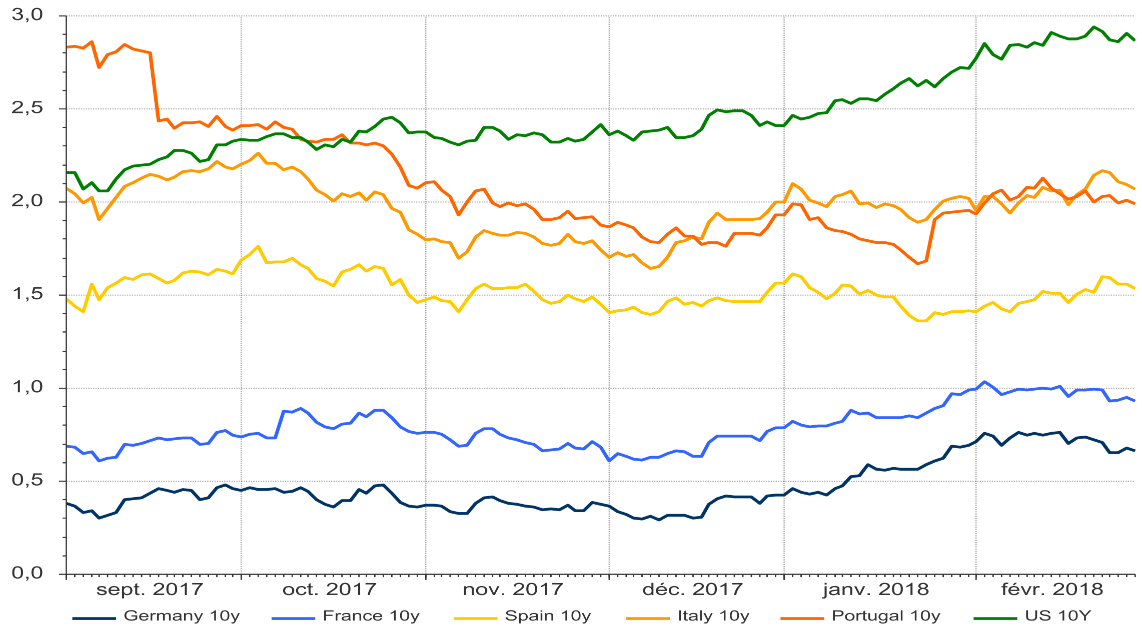
Jean Mistler

February's stock market correction that wiped out nearly all of last month's gains was primarily sparked by concerns that rate hikes in the U.S. will drag down economic growth.

Macroeconomic Backdrop

This rate hike came in on the heels of a U.S. jobs report announcing that average hourly wages had grown +2.9%, higher than analysts' expectations, triggering fears of a big upswing in inflation. These fears were magnified by the likely impact of Republican tax law on a growing economy. Investors are worried that the Federal Reserve might be forced to raise rates faster or more frequently. New Fed Chairman Powell's first testimony in Congress also pointed in this direction.

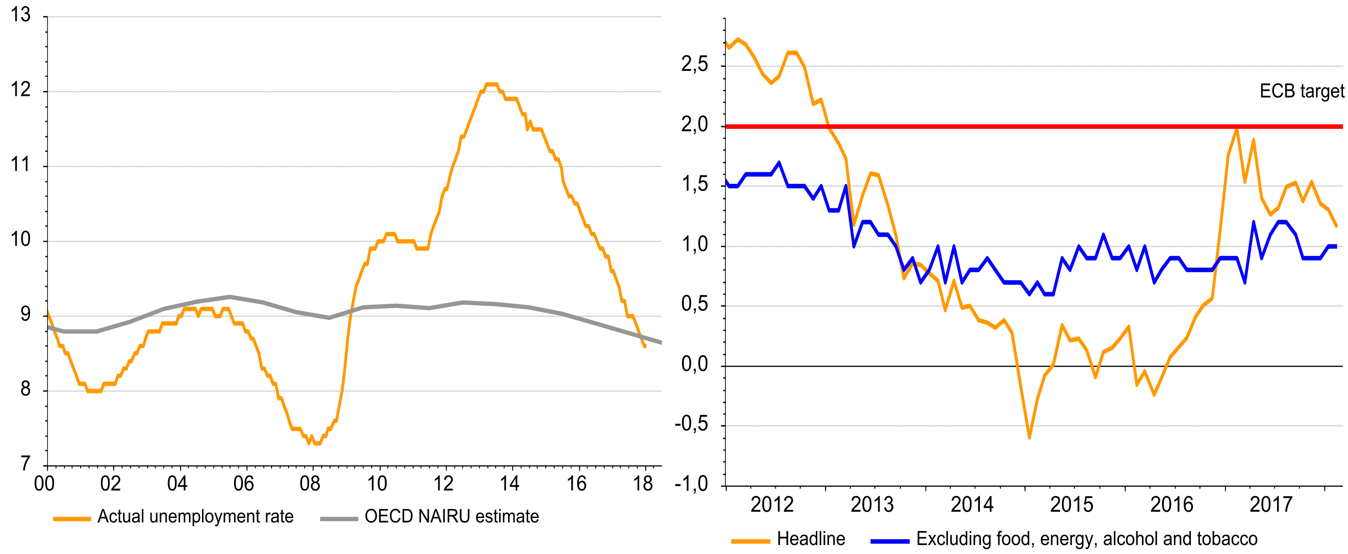
10-year sovereign yields



Source: Datastream, AG Insurance

In the eurozone, inflation eased to 1.2% in February (vs 1.3% in January), causing the ECB to tread carefully in its communication. After edging down to 8.6% in January, unemployment remained at its lowest level since 2008.

Eurozone unemployment and inflation



source: Datatstream/AG Insurance

The situation was somewhat different on the other side of the Atlantic where expectations among analysts and market pricing suggest a high probability for a Fed rate hike in March (96% of analysts are expecting the Fed to raise its rates at the March 21 meeting). Market watchers are anticipating two or even three interest rate hikes between now and the end of the year.

Rising oil prices and the spillover effect on commodity prices have once again proven to be fresh air for emerging markets this month. Russia was the star performer in February. Russia's return to economic growth (+1.7% GDP growth after two years of recession) has been a boon to the entire financial sector. As for Brazil, after the IMF's decision to raise its growth forecast, Standard & Poor's cut its credit rating to BB- due to difficulties in advancing with reforms to trim its costly pension system.

Equity Markets

While all eyes were on tech stocks, waiting for a correction to hit this overvalued sector the hardest, energy and telecom ended up taking the biggest tumble, hampered by growth in shale oil output and price pressure, respectively. Real estate and consumer products continued to take a beating in the wake of rising rates.

	Feb-18	YTD
MSCI Emu	-3.77%	-0.72%
MSCI Europe Small Caps	-2.34%	-1.10%
MSCI Emerging Europe	-2.74%	7.14%
MSCI World	-2.09%	-0.64%
MSCI World Small Caps	-1.94%	-2.14%
MSCI Emerging Markets	-2.57%	1.74%

Performances

On the whole, our equity fund managers' strategies proved successful in February, despite the challenging market environment. Both our euro-denominated and World funds closed the month ahead of their respective benchmarks.

- In the euro area, *Métropole Gestion* beat its benchmark in February by 63 bps. Clever stock picks in the financial and consumer discretionary sectors proved to be a good move, with Nokia and Publicis reeling in double-digit returns.
- Although *Invesco* was down -2.40% in February, it still outperformed its benchmark (-3.77%). Publicis was a significant contributor, as was the financial sector in this rising rate environment.
- *Blackrock* generated a modest 7 bps of excess return in February. The lift provided by the financial sector was cancelled out by losses in the technology and energy sectors.
- Finally, *BNPP*'s Best Selection Fund trailed its benchmark by 12 bps. While financials such as Deutsche Boerse and Clearstream were solid contributors, fund performance was hampered by Spanish biotech firm Grifols, the main detractor this month.

- In the World segment, *Fiera* slightly underperformed relative to its benchmark with its exposure to non-traditional financials (i.e. non-banking and insurance stocks). An underweight position in some of February's powerhouses (Apple, AutoZone, Becton, etc.) caused it to give up some of its gains.
- With 20 bps of excess return, *Russell Investments*' Global Regional Equity Fund was a strong contributor in February. Hermes, a growth fund targeting the eurozone, captured the majority of the returns. Investment strategies in Japan, however, proved to be unfruitful.

Bond Markets

While equity markets hit a spot of turbulence in February, bond markets were slightly less volatile as a risk-off mood spread, causing the German Bund to give up a few basis points. The slopes of the U.S. and European yield curves have, however, stopped moving in tandem, with the U.S. curve underperforming Euro area yield curves.

At his first congressional testimony as Federal Reserve chair, Jerome Powell hinted that he could preside over a quicker pace of interest rate increases as the economy accelerates, while at the European Central Bank, the minutes from the last meeting show that the governors will likely remain in "wait and see" mode.

	Feb-18	YTD
Aggregate		
Barclays Capital Euro Aggregate	0.12%	-0.33%
Barclays Capital Global Aggregate hedged in Euro	-0.41%	-1.28%
Barclays Capital Global Aggregate in Euro	1.23%	-1.26%
Govies		
Barclays Capital Euro Aggregate Treasury	0.19%	-0.17%
Barclays Capital Global Aggregate Treasuries	1.75%	-0.15%
Credit		
Barclays Capital Euro Aggregate Corporates	-0.02%	-0.29%
Barclays Capital Global Aggregate Corporates	0.27%	-2.78%
Barclays Capital Euro High Yield	-0.67%	-0.28%
Barclays Capital Global High Yield in Euro	0.72%	-1.76%
Emerging Markets		
Barclays Capital Euro EMD	-0.69%	-0.80%
Barclays Capital Global EMD	0.56%	-2.76%

Performances

This past February, our bond fund managers struggled to come out ahead of their benchmarks. In spite of the challenges, YTD returns on our bond funds in the Euro and World segments are still higher than their respective benchmarks.

- In euro-denominated markets, *Bluebay* trailed its benchmark by 28 bps. This was primarily due to country selection in peripheral markets (e.g. Greece) and lacklustre performance by corporate hybrids.
- *Insight* lagged 13 bps behind its benchmark. The main culprit: credit (especially the financial sector), which underperformed all other sectors. Its short duration position caused it to give up a few basis points.
- *HSBC* fell 9 bps behind its benchmark in February due to weak corporate hybrids and overexposure to high yield bonds.

- In the World segment, *Pimco* lagged slightly behind its benchmark. Its long duration position on the U.S. yield curve took a bite out of its earnings, as did its short position on the Japanese yield curve after the Bank of Japan acted decisively to curb a rise in bond prices.
- *Alliance Bernstein* came in below its benchmark in February. In spite of its winning strategies in currency (emerging vs developed markets), it was unable to offset its losses from sector allocation and yield curve positioning.
- *Aberdeen Standard* closed the month of February on par with its benchmark. While overexposure to the energy sector (Enbridge and Halliburton) put a drag on earnings, its positions in AT&T and the banking sector (Morgan Stanley and Société Générale) evened the score.
- *Russell Investments* generated an excess return of 7 bps due to its currency positions: overweight in the Japanese yen and underweight in the Australian dollar.
- The *Russell Investments* Sustainable Fund outperformed its benchmark by 14 bps. Winning strategies were overexposure to the industrial sector and to dollar-denominated emerging market debt.

FRONT OFFICE, UNIT-LINKED FUNDS

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