Desjardins
Quebec Balanced Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF MARCH 31, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
June 20, 1997

CIFSC CATEGORY*:
Canadian Neutral Balanced

Tactical management of the Fund's asset allocation had a negative impact, shaving 0.66% off the return. The overweighting in Quebec equities trimmed value following the sharp stock market downturn. The underweighting in Quebec bonds also reduced the return because the bond market was down slightly over the period. The selection of securities added 0.63% in the process. A slight underweighting in Quebec equities was initiated in the portfolio near the end of the quarter in anticipation of the decline in economic activity because of the coronavirus; this underweighting is offset by a slight overweighting in Canadian bonds.

Fixed income market

The provincial credit wasn't spared as panic hit the markets in March. Five-year spreads grew by 45 basis points and ten-year spreads by 55 basis points. Quebec's spreads are performing much better than those of the other provinces, especially the energy-producing provinces, which have been affected by the drop in oil prices.

Normally, we would be discussing budgets and financing programs at this time of the year, but, with the government plans and shutdown of the economy due to COVID-19, everything that has been released to date is probably obsolete, and it's impossible to draw clear conclusions as to the impact of these measures. Still, we wouldn't be surprised to see provincial borrowing up 50% compared to the roughly $80B issued last year.

The return on the Canadian bond portfolio at the end of the quarter was +3.59%, 30 basis points below the benchmark. This under-performance is explained primarily by the allocation to corporate bonds. The preferred shares allocation, with a return of -17.39%, trimmed value from the fixed income class.

Canadian stock market

In the wake of monetary easing and reduced trade tensions, the stock markets began 2020 on a positive note, with the S&P 500 up 5% and nearly reaching a record high in mid-February. The subsequent change in tone was dramatic. The impact of the coronavirus and, to a

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lesser extent, the lifting of limits on Saudi oil production, created a shock wave. A mere 22 days after peaking on February 19, the S&P 500 index was down 30%. The VIX volatility index reached a level (85) near its 2008 peak (89). Despite the rapid succession of announcements on an unprecedented range of fiscal and monetary aid and the S&P 500's dramatic 17% rebound in the space of five days at the end of March, most stock markets ended the quarter posting declines fluctuating between 20% and 30%, including 22% in Canada and -20% in the United States.

No sector recorded a positive return during Q1. As expected, the more defensive sectors, such as utilities (-6%), telecommunications (- 9%), and consumer staples (-10%) were among the best performers. Still, technology recorded the best return at -4%. On the other hand, real estate, healthcare and energy plunged more than 35% during the same period.

All strategies continue to be positioned defensively, and we're maintaining liquidity (+/- 3%), which we'll use strategically to take advantage of the market's considerable fluctuations. In such a volatile and uncertain environment, we're continuing to retain quality and large cap securities. We're maintaining an above-average weighting in the gold sector. Lastly, we're underweighting the energy and basic materials sectors.

The sectors that contributed positively to the fund's performance are consumer discretionary (+0.67% compared to the benchmark), telecommunications (+0.46%), and materials (+0.22%). First, in the consumer discretionary sector, MTY Food Group Inc. yielded a -61.04% return, adding 45 basis points to the entire portfolio as a result of our significant underweighting in this security. In second spot, Cogeco Communications Inc., which dropped -15.20%, helped add 27 basis points as a result of our underweighting in this security.

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Conversely, the IT and real estate sectors contributed negatively to the fund's relative performance (at -0.45% and -0.03% respectively). First, in the IT sector, CGI Inc. (-29.89%) trimmed 26 basis points from the fund's return. In second spot, Cominar REIT (-41.83%) participated in reducing the fund's return by 21 basis points

*CIFSC refers to Canadian Investment Funds Standards Committee. The CIFSC has the mandate to standardize the classification of mutual funds in Canada. http://www.cifsc.org/.