Desjardins
Global Corporate Bond Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF MARCH 31, 2020

WESTERN ASSET

PORTFOLIO MANAGER:
Western Asset Management

INCEPTION DATE:
October 18, 2013

CIFSC CATEGORY*:
Global Corporate Fixed Income

Performance Review

Global credit portfolios posted negative returns as credit spreads gapped wider on fears of impending global recession:

- An overweight to subordinated financials and energy-related issuers detracted.
- An overweight to US duration provided strong diversification.
- Long protection via credit default index swaps helped to mitigate losses.
- An overweight to EUR-denominated credit, which substantially outperformed USD-denominated credit, added value.

Portfolio Activity

- Looked to take advantage of severe market dislocations by reducing tactical credit default index swaps.
- Added to high-quality corporate bonds as the new-issue market reopened towards month-end, funded by selling USTs and other government securities.

Market Review

The escalation in the spread of COVID-19 globally with the imposition of lockdowns and social distancing sent global equity markets tumbling and credit spreads sharply wider. Oil prices collapsed, exacerbated by an unexpected price war between Saudi Arabia and Russia. Global demand for cash and forced selling of risk assets caused severe illiquidity in all markets, including US Treasuries (UST). Credit spreads gapped wider to levels not seen since the global financial crisis across all sectors and subsectors in an incredibly short period of time. Policymakers in the US, the eurozone, the UK, and elsewhere scrambled to introduce containment measures designed to slow the spread of the virus as well as fiscal and monetary stimulus packages to support both impacted individuals and broad swaths of their national economies. The Federal Reserve cut rates to zero, announced an unlimited bond-buying program and perhaps most importantly, announced a new credit facility to buy investment-grade credit rated down to BBB- in the primary and secondary markets. The European Central Bank increased asset purchases and added a new Pandemic

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Emergency Purchase Programme while the Bank of England cut rates, announced a new COVID Corporate Financing Facility and resumed quantitative easing. Bold action from central banks and governments globally restored some tentative calm towards month-end but credit valuations remain extremely dislocated.

Investment Outlook

We are clearly in the midst of a global humanitarian crisis that has rocked financial markets over recent weeks and months. The market reaction to this crisis has been severe in light of the uncertainty over the magnitude and duration of the economic impact of the outbreak. The supply shock in the oil markets is an additional deflationary shock to an already fragile financial system. How deep and how long the economic downturn will be, no one knows, and markets are fearful. While the path forward remains clouded near term, there remain some positives to consider: countries with the first signs of the outbreak (e.g., China, South Korea) are reporting lower levels of transmission. Social distancing, now being enacted more globally, should help mitigate the rate of transmission.

Significant global central bank policy easing, extensive liquidity provisions and enhanced fiscal stimulus should help to reduce the negative impacts of preventative policies on global economies. We believe investment-grade spreads overall are currently reflecting an excessively pessimistic outcome for strong credits that are well positioned to weather the current downturn.

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Over the past several months and quarters we decisively reduced exposure to credit risk versus benchmarks in global credit portfolios—accumulating USTs and buying protection via credit default index swaps, where permitted. We are now looking to take advantage of the current market dislocations, adding credit risk by closing or reducing tactical credit default index swaps and buying high quality investment-grade corporate bonds via the new-issue markets with many deals offering sizeable new-issue concessions. These additions are being funded by selling down USTs and other government bonds.

*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/.