# Desjardins
## Canadian Equity Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF MARCH 31, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
November 28, 2016

CIFSC CATEGORY*:
Canadian Equity

### Canadian stock market

- In response to monetary easing and an easing of trade tensions, stock markets started 2020 on a positive note, with the S&P 500 up by 5%, reaching a record level around mid-February. This was following by a drastic change in tone. The impact of the coronavirus, and to a lesser extent the end of the Saudi oil production limits, created a shockwave. 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) nearing its 2008 peak (89). Despite the rapid announcement of unprecedented fiscal and monetary aid and the S&P 500's dramatic 17% rebound in 5 days at the end of March, most stock markets ended the quarter posting lows of between 20% and 30%, with 22% in Canada and -20% in the United States.
- No sector experienced a positive performance over the first quarter. As could be expected, sectors that were more defensive in nature, such as utilities (-6%), communications (-9%) and consumer staples (- 10%) were among the best sectors. However, technology posted the best performance, at -4%. Conversely, real estate, healthcare and energy fell by more than 35% over the period.
- It is important to be vigilant regarding valuation information because significant downward revisions could modify the current picture. The earnings multiple forecast for the S&P/TSX index is a little over 10x, compared with a historical average of 14.5x. The S&P 500 index, for its part, is trading at a discount over its long-term average, at 13.6x the current earnings forecasts, compared with 15.5x historically.

### Certain sectors are doing relatively well, despite the situation, while others are lagging behind... despite the situation.

- If we divide the quarter into its bullish portion (until mid-February) and the "post-coronavirus" period (mid-February to the end of March), we can see that the technology, utilities and consumer staples sectors performed well in both environments. Shopify continues to stand out with an impressive 14% growth for the first quarter.
- However, both the healthcare and the energy sectors posted returns that were sharply under the S&P/TSX Composite for both periods. The collapse in oil prices caused certain securities in the sector to drop by up to 80%.

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- During the "post-coronavirus" period of the quarter, the gold sector outperformed the S&P/TSX (-12% vs. -29%), while Barrick Gold led the pack with a decrease of only 1%. However, no gold benchmark securities posted positive returns during the coronavirus period.

**Battle of the titans: A devastating virus against government programs that are unprecedented in scope.**

- First affecting the aviation and tourist industries, the coronavirus' impact is now being felt world-wide on all activities deemed non-essential. The economic impact is being deeply felt in the form of a surge in unemployment insurance claims and the challenges that individuals and companies unable to carry out their normal economic activities are experiencing in meeting their financial commitments.
- Governments and central banks seem to be drawing on their experience from 2008, given how quickly they have responded, and the scope of the measures implemented to help the economy bridge the gap during this period of extremely weak activity.

## Key factors to be monitored

- Changes in the number of coronavirus cases, access to screening tests, gradual lifting of economic restrictions
- Success of government measures: credit spreads, absence of market dislocation, rapidity and efficiency in providing help to individuals and companies
- Political/social tensions: a crisis situation can create political tensions among various entities, such as within the European Union or even among regions within the same country.

## Outlook for the S&P/TSX Composite

Unlike with the previous crises, public health is behind the current crisis rather than economic reasons. We therefore think that it will be difficult for markets to experience sustained bullish movement without at least some good news regarding the spread of the coronavirus that could lead to the lifting of economic restrictions. We believe that the measures by governments and central banks will prevent the most pessimistic scenarios, but we remain prudent, favouring companies that are

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currently allowed to operate, such as those involved in consumer staples, utilities, telecommunications and certain types of technology.

## Portfolio positioning

Positioning remains defensive for all strategies, and we're maintaining liquidities (+/- 3%), which we will roll out strategically to take advantage of the strong fluctuations in the market. In such a volatile and uncertain environment, we will continue to favour quality, large-cap equities.

An approach that we are presently using is to position ourselves in companies providing essential services according to the definition given by the various provincial governments. We think this will have a positive impact on sales for grocers such as Metro and Loblaws, discount stores such as Dollarama and gas station operators such as Couche-Tard.

We are setting ourselves apart from our peers by maintaining a higher-than-average weighting in the gold sector. We believe that the sector could outperform like it did after the 2008 financial crisis because of the central banks' QE (quantitative easing) programs.

We are underweighted in the energy and basic materials sectors. With the West Texas Intermediate (WTI) oil price at US$20 per barrel, that of Western Canada Select (WCS) less than US$5, and with commodity prices down sharply, these companies will have to reduce their dividends and put their growth projects on hold.

## Contributors to performance

- The following sectors contributed positively to the Fund's performance: energy (+0.82% compared with the benchmark), financial services (+0.76%) and real estate (+0.38%).
- Within these sectors, we note a number of securities that contributed to the added value.
- First, in the energy sector, Parkland Fuel Corp. posted a -47.55% return, adding 14 basis points to the portfolio in light of our strong underweighting in this security. In second position is National Bank of Canada, which was down by 23.47%, thereby creating 29 basis points due to our underweighting. The third security that contributed the

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most to the portfolio's performance was H&R REIT, with a return of -56.85%, adding 16 basis points to the Fund because we do not hold any shares in that security.

### Detractors from performance

- Conversely, only the information technology sector contributed negatively to the Fund's relative performance (-0.20%).
- First, in the IT sector, CGI Inc. (-29.89%) shaved 19 basis points from the Fund's performance. In second place, BCE Inc. (-2.61%) trimmed the Fund's performance by 16 basis points.

### Major changes to portfolio in the period

The 4 main transactions that occurred over the quarter were:

- Purchase of 1.09% of Kinross Gold Corp. shares
- Purchase of 0.77% of Metro Inc. shares
- Sale of 0.95% of Northland Power Inc. shares
- Sale of 0.66% of Allied Properties REIT shares

*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/.