

PORTFOLIO MANAGERS:

Desjardins Global Asset Management,  
Hexavest

INCEPTION DATE:

August 20, 1986

CIFSC CATEGORY\*:

Tactical Balanced

## Performance contributors and detractors

- In the second quarter of 2020, the bond market reacted vigorously to the various measures implemented by the Bank of Canada at the end of the previous quarter to revive the economy and stabilize the financial markets. The 2- to 10-year yield curve flattened somewhat by 0.04%, and the Canadian government 10-year yield ended the quarter at 0.53%, down 0.17% during the period. Against this backdrop, the return on the bond portfolio was higher than that of its benchmark index during the second quarter. The positioning favoured a long-term bias while counting somewhat on the yield curve to flatten. These biases were applied in response to the Bank of Canada's key rate cuts in March. Furthermore, the overweighting in corporate credit was the main reason for the added value because this sector posted the best performance of the bond market during the period. In terms of securities selection, the overweighting of the peripheral provinces was beneficial thanks to the interventions of the central banks. However, the underweighting in energy sector securities contributed negatively to added value during the period.
- Next quarter, the short-term corporate securities allocation will be maintained against the provinces given the valuation of this sector from a historical perspective. However, longer-term issuers are expected to reduce their risk because there is still a lot of uncertainty.

The collapse in equity prices during the first quarter was succeeded by a rally that resulted in one of the strongest quarters in over twenty years. Global economic activity roared back to life with several countries reversing their lockdowns while populations continued to adapt to social distancing measures. Investors pushed equity markets higher on the heels of optimism driven by enormous amounts of fiscal and monetary stimulus. The surge in equity prices occurred even though corporate profits will need several years to return to pre-COVID-19 levels. On the energy front, the price of crude oil rebounded after OPEC and its allies agreed to historic production cuts.

# Desjardins

## Tactical Balanced Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 2020

### PORTFOLIO MANAGERS:

**Desjardins Global Asset Management,  
Hexavest**

### INCEPTION DATE:

**August 20, 1986**

### CIFSC CATEGORY\*:

**Tactical Balanced**

For the quarter, the portfolio slightly trailed its benchmark given its defensive positioning in a context of very strong equity market returns. Asset allocation weighed on performance due to the underweight to equities, which detracted value during the robust rebound. The overweight to fixed income and to cash also had a negative influence. The Canadian and global equity components detracted value mainly because of their defensive posture. However, the fixed income component outperformed.

We expect the stock market to remain volatile for several quarters or even years. Over the second quarter, markets have rallied back almost to where they were before the onset of the pandemic and this happened despite much weaker fundamentals. Valuations leave little room for disappointment from either the economy, policy mistakes or an unexpected turn of events. In this kind of fragile environment, we have moved the portfolio back into a fully defensive mode.

Our first two lines of defense remain our largest active positions. Cash protects against a market correction, while gold miners, the best stock market proxy for gold, provide long-term protection against erosion in the value of paper money. The third leg of our defensive positioning is an allocation to countries and sectors—such as Switzerland or consumer staples and healthcare—that are best able to absorb market volatility. Our currency positioning also reflects a prudent approach. We remain cautious on the U.S. dollar longer-term but reduced the underweight given its tendency to outperform during bouts of turbulence. We have also added to other defensive currencies like the Japanese yen and the Swiss franc.

\*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/>.

The information provided in this document is presented for illustration and discussion purposes only. It should not be considered as investment advice or securities transaction recommendations or recommendations on specific investment strategies. This document should in no case be considered or used for the purpose of buying units in a fund or any other offer of securities, regardless of jurisdiction. Said information is intended to be general and intended to illustrate and present examples relating to management of the portfolio manager cited in this document. All views, comments and opinions are subject to change without notice. The information presented on the market context and strategy represents a summary of the cited portfolio manager's observations with regards to the markets as a whole and its strategy as of the stated date. Different perspectives can be expressed based on different management styles, objectives, opinions or philosophies. Under no circumstances may this document be reproduced, in whole or in part, without obtaining written permission from the cited portfolio manager.

The Desjardins Funds are not guaranteed, their value fluctuates frequently, and their past performance is not indicative of their future returns. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The Desjardins Funds are offered by such registered dealers.