

# Desjardins

## Quebec Balanced Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 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 0.31% off the return. The underweighting in Quebec equities combined with an overweighting in the money market trimmed value for the quarter based on the strong rebound in the financial markets. The securities selected trimmed 0.43%. A slight underweighting in Quebec equities was maintained in the portfolio in anticipation of a deterioration in economic activity caused by a resurgence in coronavirus cases; this underweighting was offset by a slight overweighting in Canadian bonds.

### Fixed-income markets

Like the other sectors, provincial credit posted an impressive increase in the second quarter, with 5- and 10-year spreads narrowing by 31 and 34 basis points respectively.

All the provinces updated their budgets, which are showing significant deficits related to the pandemic measures. These deficits span several years for all the provinces, and it is still difficult to predict how valid they are, as many measures are expected to change in the coming weeks and the amount of federal assistance to the provinces is unknown. What is certain is that borrowing programs have increased significantly for this year and the coming years.

Given the expected supply in the primary market, we will probably not return to the spreads observed in January any time soon, even with the Bank of Canada's Provincial Bond Purchase Program.

The second quarter of 2020 was also very favourable for spreads on corporate bonds. New or enhanced U.S. and Canadian central bank corporate bond purchase programs did their job. The new Canadian \$10-billion purchase program for assets with a BBB- or higher rating and a remaining term-to-maturity of 5 years or less has been used very little to date. Nevertheless, these programs offer a sense of security by creating an ultimate buyer. Moreover, the easing of lockdown measures has begun, and investors seem rather optimistic about the strength of the economic recovery. As a result, Canadian corporate bond spreads tightened dramatically during the quarter, for an average tightening of 100 basis points.

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### **Fixed-income markets (cont'd)**

The bond portfolio ended the quarter with a performance 45 basis points better than the benchmark. This overperformance is explained primarily by the allocation to corporate bonds. The preferred equities allocation, with a performance of +14.55%, added value to the fixed income class.

### **Canadian stock markets**

Following the stock markets' major abrupt pullback in the first quarter, they posted a solid rebound in the last three months. Encouraged by tax programs and monetary authorities' initiatives, investors seem to be anticipating that the economic slowdown caused by the pandemic will be relatively short. They do not appear overly concerned about the negative impacts of the crisis on companies' results for the current year.

In Canada, the S&P/TSX advanced 17.0%. The technology sector posted the index's best performance, up 68.2%. Shopify's stock rose by more than 118.8%. In May, Shopify outperformed Royal Bank to become the largest company in terms of market capitalization in the country. The gold sector, with a quarterly return of 50.6%, also posted solid growth.

The Canadian equity portfolio ended the quarter with a performance 100 basis points under the benchmark. This relative underperformance is mainly due to the selection of securities in the industrial (-0.52%) and materials (-0.27%) sectors. In the industrial sector, the absence of exposure to Richelieu Hardware Ltd. (+29.92%) reduced the fund's performance by 30 basis points. In second position, Cascades Inc. (18.35%) participated in decreasing the fund's performance by 15 basis points as a result of its underweighting.

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### Canadian stock markets (cont'd)

The sectors that contributed positively to the fund's performance are energy (+0.13% vs. the benchmark), utilities (+0.11%) and consumer staples (+0.04%). In the financial services sector, National Bank of Canada saw a 14.44% return, adding 5 basis points to the overall portfolio. In second position was Boralex Inc., which rose 24.32%, helping to add 12 basis points. The third security that contributed the most to the portfolio's performance was Alimentation Couche-Tard Inc., with a return of 28.42%, adding 17 basis points to the fund.

\*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/>.

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