Desjardins Tactical Balanced Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2020

PORTFOLIO MANAGERS:
Desjardins Global Asset Management, Hexavest

INCEPTION DATE:
August 20, 1986

CIFSC CATEGORY*:
Tactical Balanced

Contributors to and detractors from performance

In Q3 2020, the financial markets saw economic activity gradually regain momentum and unprecedented interventions on the bond market. The 2- to 10-year yield curve steepened by 0.08%, and the Canadian government's 10-year yield ended the quarter at 0.56%, up 0.03% over the period. Against this backdrop, the bond portfolio's performance beat its benchmark in the third quarter, resulting in a total return of 0.97% versus 0.72% for the benchmark. Added value over the period stemmed from positioning the portfolio to take advantage of the steeper yield curve and an overweighting in corporate securities. Changes this quarter included replacing the primary investment fund manager (Hexavest), resulting in the fixed-income portion managed by DGAM being dissolved. The liquidation began on July 28 with a withdrawal of $342.7 million. The remaining assets, valued at approximately $50 million, will be sold in October.

Global equity markets reversed trends during the quarter, essentially rising during the first two months and then declining during the larger part of September. The downturn was led by a limited number of U.S. mega-cap technology companies who posted double-digit declines. After an initial rebound following the spring lockdowns, the global economic recovery seemed to be slowing as several countries reinstated more stringent social distancing measures due to fears of a second wave of COVID- 19 cases. Corporate activity garnered much attention with consolidation in the tech sector where the Trump administration targeted a number of Chinese companies.

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. While the global equity component detracted value mainly because of its defensive posture, positioning within the Canadian equity component was well rewarded. The fixed income component outperformed as well.

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We expect the stock market to remain volatile for several quarters to come. Over the third quarter, markets have continued to rally back, surpassing their pre-pandemic levels, 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, the portfolio has remained in 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 utilities—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, though we expect it would outperform during bouts of turbulence. We also maintained the overweights 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/.