

Desjardins

Quebec Balanced Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2021

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
June 20, 1997

CIFSC CATEGORY*:
Canadian Neutral Balanced

Tactical asset allocation had a positive impact on the fund's first quarter return, adding 0.29%. While the underweight position in Quebec bonds was the primary source of value added, the overweight in Quebec equities also added value over the period. Security selection shaved off 0.35%. Positive economic developments combined with the quickening pace of COVID 19 vaccinations led the manager to upgrade his expectations for equity markets. In the event of a correction, he would be inclined to increase the overweight position in Quebec equities, as earnings growth is expected to support prices in the quarters ahead. He remains underweight on the fixed income side, and is monitoring economic developments closely, particularly variables that could affect inflation. For the time being, the inflation trend is toward moderation, but the manager remains cautious given the strong rebound in growth. As long as central banks keep key rates at current levels and bond buyback programs continue, short term rates will stick close to current levels. However, if government stimulus plans produce the desired effect and vaccinations continue to ramp up, monetary authorities may gradually review their policies and trigger a further rise in long term bond rates. If that happens, it would be prudent to further reduce exposure to government bonds with longer maturities.

Fixed income market

After an uneventful quarter, provincial spreads finished little changed from year-end levels. 5-year spreads widened by 3 basis points as valuations in this sector were stretched, while the Bank of Canada announced that its provincial bond purchase program would end as scheduled in May. 10-year spreads tightened by 2 basis points as international investors were active in this sector for most of the quarter.

The largest provinces presented their budgets in March and, as expected, are showing big deficits with significant borrowing programs to finance them over the coming years. For now, the rating agencies appear to be patient in the context of the pandemic, but they have indicated that they will assign higher ratings to provinces with strong pre-pandemic fiscal performance, which will be favourable to the province of Quebec.

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Fixed income market (cont'd)

The bond portfolio ended the quarter 8 basis points above the benchmark. This outperformance is explained primarily by the allocation to corporate bonds. The allocation to preferred shares, with a performance of +6.28%, added value to the fixed income class.

Canadian stock market

Canadian and US equity markets continued their rebound and ended the first quarter of 2021 with a total return of +8.1% for the S&P/TSX, +6.2% for the S&P 500, +3% for the NASDAQ and 6.59% for the Desjardins Quebec Index. Since the low point on March 23, 2020, the S&P/TSX has rebounded by 67%, the S&P 500 by 81%, the NASDAQ by 100% and the Quebec Desjardins Index by 76.26%. During the quarter, eight of the ten sectors in the Desjardins Quebec Index posted positive returns. The financial sector, with a weighting of 16.53% in the Quebec Desjardins Index, was the best performer (+19.38%), driven by rising interest rates.

The first quarter was marked by a rebound in value stocks, which had underperformed for a number of years. A rotation of investors toward cyclical sectors, such as consumer discretionary and energy stocks, was observed. The anticipated economic recovery is likely to benefit shares in these sectors. The portfolio positioning is split between defensive and cyclical securities. We continue to favour quality, large-cap securities. Amid continued uncertainty despite a strong rebound by North American markets, we are deploying our cash to buy securities with a significant competitive edge.

The equity portfolio performance ended the quarter 72 basis points below the benchmark.

The sectors with a positive contribution to the fund's performance were consumer discretionary (+0.23% compared with the benchmark) and consumer staples (+0.01%). In the consumer discretionary sector, BRP Inc. saw a 29.59% return, adding 9 basis points to the overall portfolio as a result of our overweight position.

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Canadian stock market (cont'd)

Conversely, the industrials and materials sectors contributed negatively to the fund's relative performance (-0.32% and -0.24%, respectively). In the industrial sector, the absence of exposure to Richelieu Hardware Ltd. (+25.45%) reduced the fund's performance by 30 basis points. In second position, the absence of exposure to 5N Plus Inc. (+55.41%) accounted for a lowering of the fund's relative performance by 9 basis points.

*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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