INVESTMENT FUNDS

BOND

MONTHLY COMMENTARY

May 29, 2020

What are the main economic or market elements that have caught our attention recently?

The impacts of the monetary and fiscal policies implemented already reflected in market prices, the month of May was quiet for fixed income securities. It is interesting to note that the programs are still active and that institutions have announced their willingness to offer, if necessary, even more support to the economy.

A significant dichotomy continues to form between the equity and bond markets. The S&P500 rose 5% during the month, while interest rates with a 10-year maturity remained practically unchanged, accompanied by low volatility. The stock market looks beyond the economic data, although the data is currently reaching levels dating from 2009 (rapid growth in the unemployment rate, downward inflationary data in Canada, etc.). In addition, the wave of optimism caused by the gradual reopening of economies following the global COVID-19 pandemic pushed risk assets in May. For example, corporate credit spreads resumed their compression following a pause in April. Liquidity and financial conditions continued to improve in May after the difficult months of March and April.

What are the biggest risks/opportunities that we anticipate in the next 6 months?

Several important events will follow in the next six months. First, since the coronavirus is still very active, it remains a major global risk. The bond market expects a gradual recovery in the economy and the discovery of a vaccine in the coming months. However, it should be mentioned that in the event of a second wave of infection or setbacks in the search for a vaccine, risky assets and bond rates could fall rapidly. Next, the US presidential election in November, combined with the return of tensions between China and the United States, could make waves in financial markets. Indeed, the US has strongly blamed China for its management of the epidemic, on top of imposing economic sanctions and withdrawing Hong Kong's privileged status. Then, the riots in the United States caused by the death of George Floyd take place in the heart of a period of major economic disruption and could have negative consequences if we see an increase in the number of cases of COVID-19. Finally, negotiations for the trade agreement between Britain and the European Union in the coming months should be considered, as Boris Johnson seems to be taking a hard line on the subject at the moment.

Fund outlook and positioning

Due to the North American central banks' corporate bond buying programs and the search for yield in a universe of low interest rates, we are constructive with regards to corporate credit spreads. In addition, faithful to our method, we remain agile in terms of duration management to take advantage of market opportunities.

Regarding future actions by the Bank of Canada, we continue to believe that the key rate will not be lowered to negative territory, due to the potential impact to the financial system and inconclusive advantages to economies in this situation.

However, we believe that the short-term portion of the yield curve will be anchored by central banks. Due to numerous issues in the long-term portion of the curve, resulting from an increase in the indebtedness of countries, we foresee a further steepening of the yield curves in the coming months.

In conclusion, despite the gradual reopening of the economies and the positive tone in financial markets, we think that rates should remain low for several months due to the hyperactive central banks.

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List of the main funds managed by the team

✓	Money Market
✓	Short Term Bond
✓	Bond
✓	IA Clarington Bond Fund
✓	IA Clarington Money Market Fund
✓	IA Clarington Real Return Bond Fund

iAIM Snapshot

— Principal Asset Manager for iA Financial Group
— Major player in the asset management industry
— Manages $97 billion in general portfolios and segregated and mutual funds
— A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
— Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

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