

# Desjardins

## Short-Term Income Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2021

PORTFOLIO MANAGER:

**Desjardins Global Asset Management**

INCEPTION DATE:

**June 30, 1965**

CIFSC CATEGORY\*:

**Canadian Short-Term Fixed Income**

### Contributors to performance

- The portfolio benefited from government issuer selection, particularly by overweighting NHA mortgage backed securities and, to a lesser extent, by favouring peripheral provinces over central provinces. With regard to corporate debt, all selected issuers outperformed the target, which more than offset asset class allocation effects. This is interesting given that the issuers held in the portfolio had lower-risk profiles than the benchmark. The transfer of bank debt to higher risk sectors was beneficial, but the transfer of telecom sector issues to banks captured the exaggerated compression of relative spreads.

### Detractors from performance

- The portfolio was positioned to capitalize on a flatter yield curve with a slightly long bias. In particular, 5-year rates rose from 0.39% to 0.99%, while 2-year bonds remained relatively stable. It was mainly the sudden and sharp steepening of the short-term curve that detracted from value. The carry has allowed us to temper the negative impact somewhat. We adjusted duration throughout the period with a long underlying bias, which trimmed a few basis points despite maintaining a cash portion due to the positioning on the curve. The municipal overweighting also weighed on value, echoing the provincial sector. However, the excess return offered on these securities is akin to bank debt, which is expected to stabilize their value for investors in the very short-term portion of the curve.

### Positioning

- The flattening bias will be maintained throughout the upcoming period. According to our administered rate scenarios, 5-year bonds offer even more value, as well as a 3-year forward rate 2 years out that is above the recently observed average. To implement this positioning, the 2-year sector is underweighted against the 5-year sector. Duration will be kept neutral and will be tactically adjusted given the Bank of Canada's patient tone regarding a potential tightening of its monetary policy offset by inflation data that may capture attention with its strength, despite the warning that this shock should only be temporary due to energy related base effects, specifically the price of oil.

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#### Positioning (cont'd)

In terms of debt issues, government agencies will be favoured over provinces with maturities of less than 3 years, and we will maintain our position in NHA mortgage backed securities at current levels as well as the maximum exposure to unrated municipal securities. Provincial issues will be concentrated at the further end of the curve, where they offer more value. Particular attention will be paid to the winding down of the Bank of Canada's purchasing programs in the next quarter. The weight in corporate debt will be maintained or even increased, and a rotation toward higher risk issuers is planned to cash in on the momentum from the economic recovery.

\*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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