Desjardins
Dividend Income Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF MARCH 31, 2021

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
January 1, 1994

CIFSC CATEGORY*:
Canadian Equity Balanced

Tactical asset allocation of the fund had a positive impact on the first quarter's return, adding 0.48%. While the underweight in Canadian bonds was the primary source of value added, the overweight in Canadian equities and preferred shares also added value over the period. Security selection trimmed 0.98%. Positive economic developments combined with the quickening pace of COVID-19 vaccinations caused the manager to upgrade his expectations for the Canadian stock market. If corrections were to occur, he would be inclined to increase the overweight positions in these asset classes, as earnings growth is expected to support prices in the quarters ahead. On the fixed income side, he's maintaining his underweighting and closely monitoring economic developments, particularly variables that could affect inflation. For the time being, the 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 effects and vaccinations continue to ramp up, the monetary authorities may gradually review their policies and cause rates on long term bonds to rise further. If that were to happen, it would be prudent to further reduce exposure to government bonds with longer maturities.

Fixed-income market

In the first quarter of 2021, the financial market maintained the momentum from the previous quarter, driven by the population being vaccinated against COVID-19. The 2- to 10-year yield curve steepened by 0.86%, and the Canadian government's 10-year yield ended the quarter at 1.56%, up 0.88% over the period. Against this backdrop, the bond portfolio's performance slightly beat its benchmark in the first quarter, resulting in a total return of -5.02% versus -5.04% for the benchmark target. The selection of debt securities combined with a positioning favouring the steepening of the 5- to 10-year yield curve added value to the portfolio's performance. With a more defensive positioning in terms of exposure to debt securities, we shielded the portfolio in anticipation of a new issue schedule that will start early in the next quarter. Yields are expected to continue to steepen next quarter. However, we plan to move back toward a neutral position on the yield curve once we reach our targets. In the current climate, we'll continue to buy provincial securities with long term maturities as well as specific corporate securities if the valuation is justified.

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Preferred shares

Limited recourse capital notes (LRCNs) continue to impact the preferred share market, especially as insurance companies are now using this type of instrument. Earlier this year, Pembina Pipeline announced its intention to issue a hybrid debt security for the purpose of redeeming two issues of preferred shares. The transaction was successful. TC Energy followed suit, also issuing a hybrid debt security and announcing the redemption of a preferred share issue. All of this drives down the market capitalization of the preferred share market.

In addition to share buybacks and the expectation of significant buybacks this year, rising interest rates have certainly boosted the preferred share market. The 55-basis-point increase in the 5-year Government of Canada bond yield was a boon to reset rate shares. The portfolio underperformed the benchmark by 101 basis points. A more defensive positioning amid a sharp rise in the market largely explains this underperformance, particularly an underweight in Brookfield Office Properties securities, which posted an average return of +30% during the quarter.

Canadian stock market

Canadian and U.S. 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 Québec Desjardins Index. Since the low reached on March 23, 2020, the S&P/TSX has rebounded by 67%, the S&P 500 by 81%, the NASDAQ by 100% and the Québec Desjardins Index by 76.26%. For the S&P/TSX Composite Dividend Index, 10 of the 11 sectors were up during the quarter. The energy sector had the highest return, at 13.91%. The materials sector was the only sector to end in negative territory, falling 5.50%.

The portfolio positioning is shared between defensive and cyclical securities. We continue to favour quality, large cap securities. Amid continued uncertainty despite a strong rebound by the North American markets, we are deploying our cash in order to purchase securities with a significant competitive edge. The first quarter was marked by a rebound in value style securities, which had underperformed for a number of years.

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Canadian stock market (cont'd)

We noted a rotation of investors toward cyclical sectors, such as consumer discretionary and energy. With this in mind, we have increased our exposure in the financial services sector, by increasing our weightings in the banking and insurance sectors. We also reduced our underweighting in the energy sector.

The equity portfolio ended the quarter 120 basis points below the benchmark. The sectors that boosted the fund's performance are materials (+0.47% compared with the benchmark) and information technology (+0.01%). In the materials sector, Barrick Gold Corp. reported a return of -13.62%, adding 33 basis points to the fund's performance due to a lack of shares in our portfolio. Conversely, the energy and financial services sectors detracted from the fund's relative performance (-0.41% and -0.32%, respectively). The lack of Bank of Montreal shares (+17.04%) in the fund trimmed 49 basis points from the fund's relative performance.

*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/.