

Desjardins

Quebec Balanced Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 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 second quarter return, adding 0.29%. While the underweight position in Quebec bonds was the primary source of value added, overweighting in Quebec equities also added value over the period. Security selection added 0.27%. In light of the recent reopening of economies supported by the decline in the number of COVID-19 cases around the world, the manager is inclined to maintain his overweighting in Quebec equities. If corrections were to occur, he would be prepared to increase the overweight position in such equities, as earnings growth is expected to support prices in the quarters ahead. On the fixed income side, he is maintaining his underweight position. 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

The second quarter was interesting for provincial bonds. Although the Bank of Canada ended the 10-year and under provincial bond purchase program in May, spreads narrowed by 8 basis points for the 5-year sector and 4 basis points for the 10-year sector.

Large government borrowing requirements could hamper the overall performance of spreads in the provincial sector, but recent financial updates tend to indicate smaller deficits and therefore potentially lower borrowing requirements than originally anticipated.

The bond portfolio ended the quarter with a performance similar to the benchmark. The allocation to preferred shares, with a performance of +4.33%, contributed positively to the fixed income class.

Canadian stock market

Canadian and U.S. equity markets continued their rebound and ended the second quarter of 2021 with a total return of +8.6% for the S&P/TSX, +8.6% for the S&P 500, and +9.7% for the NASDAQ. The Desjardins Quebec Index had a total return of +6.43%.

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Canadian stock market (cont'd)

In Canada, 9 of the 11 sectors ended the quarter with increases, but the range of these total inter sector returns remains very broad, from +23% to -11.7%. This situation is similar for the Desjardins Quebec Index. Indeed, 8 of the 10 sectors in the index posted positive returns ranging from -5.8% to +14.9%. The strongest performing sector in the Desjardins Quebec Index is real estate, driven by Cominar Real Estate Investment Trust, which had a performance of over 18.1%. Second place goes to the information technology sector, which had a return of more than 14.1% thanks to Lightspeed POS Inc. (+31.3%), supported by 2 acquisitions giving them a significant strategic position in their market.

Portfolio positioning

Portfolio positioning is split between defensive and cyclical securities. We continue to favour quality large-cap securities. In an environment that remains uncertain despite the strong recovery in North American markets, we increased cash holdings during the quarter.

After a start to the year characterized by a rebound in value-style securities that had underperformed for several years and a rotation of investors towards cyclical sectors, during the second quarter the change in interest rate trends slowed the rotation of investors towards the more cyclical sectors of the economy. We took advantage of the decline in some securities to initiate positions in securities with short- and medium-term catalysts. For example, we increased our position in BRP Inc.

Contributors to performance

- The sectors that boosted the Fund's performance are industrial (+0.25% compared to the benchmark) and information technology (+0.11%). In the industrial sector, Richelieu Hardware LTD reported a return of -2.7%, adding 11.2 basis points to the overall portfolio due to the fact that the security was not part of our portfolio. In the information technology sector, Lightspeed POS Inc. posted a 31.28% return, contributing 10.2 basis points of added value, given our overweight position.

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Detractors from performance

- Conversely, the utilities and materials sectors contributed negatively to the Fund's relative performance (at -0.04% and -0.02% respectively). In the utilities sector, Boralex Inc. (-4.05%) took 4.4 basis points from the Fund's performance, given our overweight position. In the materials sector, we find Aya Gold & Silver Inc. (+86.21%), which contributed to a decrease in the Fund's performance of about 7.0 basis points, given the addition of this stock to the portfolio during the quarter.

*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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