

Marret Enhanced Government Bond Fund | Class F, CAD

February 2019 Commentary

FUND STATISTICS

Date of Inception	January 14, 2019
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PERFORMANCE	AS AT FEB 28, 2019
Since Inception	0.27%
MTD	(0.18%)
YTD	0.27%
1 YR	NA
3 YR	NA
5 YR	NA

Source: Marret Asset Management Inc.
February 28, 2019

Fundamental | Technical Outlook

Central banks reaffirmed their cautious stance, as risk markets flirt with throwing caution to the wind. The prospect of global growth slowing below potential and the limited *ability* to ease, has policy-makers projecting a *willingness* to ease, if need be. Meanwhile, investors are optimistic that China's slowdown is being adequately addressed by authorities and that the headwind of hawkish central banks is a distant memory. Investors' thesis is discount rates are stable, global growth is stabilizing and risk premiums are elevated. Therefore, buy. Buy bonds, buy stocks, buy gold, buy credit.

But wait. Are we mid-cycle, i.e., is growth stabilizing and policy accommodative? Rates in the US are at neutral. Economic data has been foggy; manufacturing activity has continued to disappoint already depressed expectations, but Chinese credit growth was encouraging (however, the details much less so). Rather than falling back to mid-cycle, we believe we are approaching an important juncture that is more unstable than market pricing conveys. Either growth stabilizes near potential, justifying a neutral monetary policy stance or we transition to the recession phase of the cycle and easing is required. Not exactly symmetric.

What are we monitoring to identify the likely path? The mechanism to transition from late-cycle to recession often includes two related channels: the confidence channel and the credit channel. If a slowdown is sharp or persistent enough to change the sentiment of consumers, businesses, or credit providers, spending slows enough for the economy to enter a feedback loop of lower spending, lower incomes, lower confidence, repeat. We are tracking factors that affect three subcategories of the confidence and credit channels: the impact of US-China/UK-EU trade developments on business confidence; European bank health, with a focus on how the ECB and Eurogroup navigate policy as we approach the EU elections; and corporate lending, specifically investment grade and high yield spreads.

In the current environment, if the balance of these channels takes a turn for the worse, we will position for the recession phase. However, while inflation is still muted, and the channels are not 'on', rates will likely be range-bound. Our intentions are unchanged, we expect to be closer to benchmark duration



near 2.85%-2.95% on US 10-year rates and have lower duration as rates approach 2.50%. We have increased duration but remain below benchmark.

Fund Positioning

Overall duration: Underweight

Cross-currency: Modestly overweight the US vs Canada

Maturity: Overweight 10-yr vs front-end and 30-yr

Key Transactions

Increased duration, primarily with Government of Canada 10-yr bonds.

FUND PERFORMANCE %, CLASS F, CAD

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2019	0.45%	(0.18%)											0.27%

Source: Marret Asset Management Inc.

February 28, 2019



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