

Marret Enhanced Government Bond Fund | Class F, CAD

May 2019 Commentary

FUND STATISTICS

Date of Inception	January 14, 2019
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PERFORMANCE	AS AT MAY 31, 2019
Since Inception	3.61%
MTD	2.30%
YTD	3.61%
1 YR	NA
3 YR	NA
5 YR	NA

Source: Marret Asset Management Inc.
May 31, 2019

Fundamental | Technical Outlook

The U.S. Federal Reserve says they'll be patient, but the Market is increasingly less so. So far, J. Powell & Co. have maintained their "wait and see" messaging, whereas rate markets have "seen enough" and proceeded to price more than three rate cuts by the Summer of 2020.

This month, markets were surprised by the escalation in trade tensions between the U.S. and China. The persistence of the situation is difficult to assess as the challenges are self-inflicted, meaning that any solution and its timing will also come from the policymakers involved. Who are the players in this proverbial game of chicken? Two bullies and a gaggle of geeks. The two bullies, Trump and Xi, are at a stalemate with neither wanting to look weak or lose face. China appears content to wait-out Trump, increasing their rhetoric and liquidity injections. Therefore, the

question becomes: will the Trump Put or the Powell Put be exercised first? The Market's money is on the gaggle crying "uncle", i.e., the Fed cutting.

With slowing but solid U.S. economic data, it is likely that financial conditions will need to tighten further to get the Fed to respond, i.e., they will need to see lower stock prices, wider credit spreads and a stronger U.S. dollar. If all the players are patient, risk markets have no reason to rally and markets will continue to search out who has the lower pain tolerance; the Fed, Trump or China.

Last month, we said we'd maintain a duration of 6-8 years and could increase it more aggressively, if we thought the Federal Open Market Committee (FOMC) was closer to a cut. We spent most of the month around 7 years and took it as high as 10 years near the end of the month. We're exiting May with a duration of 8 years as we believe the current environment justifies above benchmark duration but we're also cognizant of the overbought conditions currently present in the U.S. bond market.



Fund Positioning

Overall duration: Above benchmark

Cross-currency: Overweight the U.S. vs Canada

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

Key Transactions

Increased duration throughout the month, primarily with UST 30-yr.

Sources: Marret Asset Management Inc., Bloomberg L.P., FTSE Russell.

FUND PERFORMANCE %, CLASS F, CAD

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2019	0.45%	(0.18%)	1.43%	(0.41%)	2.30%								3.61%

Source: Marret Asset Management Inc.

May 31, 2019



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