MARRET ASSET MANAGEMENT INC.

MARRET ENHANCED TACTICAL FIXED INCOME FUND

Weekly Commentary | January 11, 2022 | Series F, CAD

WEIGHTS	
Cash	43%
Commercial Paper	3%
Govt. Bonds	-5%
IG Bonds	21%
HY Bonds	30%
Bank Loans	6%
Equities	0%

YIELD INFORMATION	
Yield to Maturity	1.78%
Current Yield	1.99%
Yield to Worst	1.44%
Average Duration	0.76 Years

PERFORMANCE	
Since Inception	3.29%
MTD	-0.07%
YTD	-0.07%
1 YR	0.87%
3 YR	2.67%
5 YR	2.63%
NAV	10.9921
Distribution YTD*	0.0000

*Current Period Distribution: 0.0000
Date of Inception: November 28, 2014
Source: Marret Asset Management Inc., January 7, 2022

Fiscal stimulus, supportive monetary policy and effective vaccines provided a strong backdrop for the economy and risk assets in 2021. As economic growth and employment recovered from their pandemic lows, North American equity markets reached all-time highs and credit spreads tightened despite record supply. However, supply chains that had been disrupted during the pandemic couldn't meet demand growth. Inflation spiked to levels not seen since the early 1980s. Central banks became more concerned with the effect persistently high inflation could have on future inflation expectations. They began communicating an accelerated withdrawal of monetary accommodation. The headwinds of elevated inflation and less accommodative central banks weighed on fixed income assets. Government bonds suffered losses across the curve and only the shortest investment grade corporate bonds managed to maintain their value. High yield corporate bonds were the lone bright spot as their carry, spread tightening and short duration allowed them to generate a coupon like return.

At the end of the year, markets focused once again on COVID-19 after the Omicron variant was discovered, resulting in a quick sell-off across risk assets. Investors were relieved, however, that despite high transmissibility, Omicron appears to be causing fewer hospitalizations. Equities rallied back, while credit spreads tightened from their late November sell-off. U.S. government bonds suffered losses as the Fed increased the speed of its taper in December. The Fed expects both their inflation and full employment targets will be met in 2022, allowing them to begin raising rates this year. The back up in rates also caused losses in investment grade corporate bonds despite their tighter spreads. We had previously noted the historically wide differential between Canadian and U.S. government bond yields at the end of October. That differential had fully reversed by the end of December after Canadian government yields fell and bonds generated gains during the month. High yield generated its best returns of the year in December due to tighter spreads.

The Fund generated a similar gain to its benchmark in December with contributions from each of high yield, investment grade, and government bonds. However, for the full year, the Fund significantly outperformed its benchmark, posting a gain when most fixed income assets suffered sizeable losses. The Fund increased its interest rate hedges after interest rates fell at the start of the month and then steadily reduced them as interest rates rose throughout the rest of the month. The Fund maintained the investment grade spread exposure it added in November. It also significantly reduced its exposure to longer duration, high quality high yield bonds as they strengthened into month end.

Market Performance	31-Dec	7-Jan
S&P 500		
Index Level	4,766	4,677
Pct. Chg. (%)		-1.87%
BofA Merrill Lynch U.S. High-Yield Index		
Yield	4.28%	4.67%
Yield Δ		+39bps.
Bloomberg Barclays U.S. Aggregate Corporate Index		
Spread	92	92
Spread Δ		0bps.
UST 10Yr. Yield	1.51%	1.76%
3-Month CAD Bankers' Acceptance	0.28%	0.31%

We expect 2022 to be a year of normalization. Economic growth should normalize towards its pre-pandemic level. Inflation may take a little longer to moderate but should also eventually normalize in the direction of the Federal Reserve's long-term target. Central banks have clearly indicated they will normalize monetary policy as well, necessarily removing pandemic related accommodation as the economy recovers.

Risk assets like equities and credit spreads would typically be favored in this backdrop. However, rich starting valuations demand a little more caution. The Fund will have a favorable bias to credit spreads but expects to be more active as valuations progress throughout the year. Rate sensitive investments will be challenged in this type of environment. Interest rates are rising from a very low base due to aggressive central bank accommodation and the market is currently pricing in a lower terminal rate than policymakers. We expect both rates and the terminal rate to rise during the year. As a result, the Fund continues to hedge against rising interest rates. Monetary policy normalization often creates volatility in markets. The Fund plans to take advantage of volatility to add value through tactical shifts.

Overall, it is unlikely that the next year is a one-way trade. The economic environment should be supportive. However, gains have been pulled forward in risk assets. Also, all asset classes face the headwind of monetary policy normalization, which we anticipate will be the primary driver of markets this year. This setup warrants concern over larger risk drawdowns. We believe active positioning from a defensive base will be the most prudent way to optimize risk adjusted returns in 2022.

Sources: Marret Asset Management Inc., Bloomberg Finance L.P., January 7, 2022.

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The Yield Information reported is representative of the strategy and not any individual client yield. These figures are compiled from third-party sources believed to be reliable, however, care should be taken when relying on these figures as the information is obtained from third party sources that may or may not be verified. All data presented is unaudited.

The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns.

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Source: Marret Asset Management Inc., January 7, 2022   Publication date: January 13, 2022