MARRET ASSET MANAGEMENT INC.

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MARRET ENHANCED TACTICAL FIXED INCOME FUND

Monthly Commentary | December 2023 | Series F, CAD

WEIGHTS	
Cash	4%
Commercial Paper	0%
Govt. Bonds	57%
IG Bonds	25%
HY Bonds	14%
Bank Loans	0%
Equities	0%

YIELD INFORMATION	
Yield to Maturity	4.84%
Current Yield	3.86%
Yield to Worst	4.8%
Average Duration	1.62 Years

PERFORMANCE	
Since Inception	2.87%
MTD	0.16%
YTD	0.16%
1 YR	3.99%
3 YR	1.23%
5 YR	2.11%
NAV	10.6027
Distribution YTD*	0.3846

*Current Period Distribution: 0.0350
Date of Inception: November 28, 2014
Source: Marret Asset Management Inc., January 12, 2023

Investors entered the year concerned that the unprecedented pace of monetary policy tightening would lead to a recession, or at least a growth slowdown. However, the economic data remained resilient, even while prices disinflated. Against this backdrop, most asset classes performed well, despite the challenges of banking failures, debt ceiling tensions, and a deluge of government debt issuance.

The fears investors had over the pace of tightening appeared validated in March when stresses in the global banking system led to the largest bank failure since the financial crisis. The crisis rapidly spread from regional banks in the U.S. to Switzerland. Further tightening in credit conditions looked likely. To prevent contagion from spreading further in the banking sector, regulators and policymakers swiftly provided generous liquidity backstops and unprecedented guarantees of deposits. The combined actions calmed fears enough that the Fed felt comfortable increasing interest rates by another 75bps in the months to follow.

By late summer, investor focus had shifted to the large increases in fixed income supply required by the continued massive deficit spending. Weaker than expected demand at government bond auctions and expectations of auction supply increases caused yields to rise rapidly. The term premium investors charge to hold longer-dated government bonds increased to levels not seen since the financial crisis. The bond market disruption concerned the U.S. Treasury enough to announce a smaller than expected increase to coupon issuance in early November, igniting a rally in assets that lasted into year-end.

Not to be outdone by the Treasury, the Fed continued their pause in December. Chair Powell communicated that peak rates were likely here and discussion of potential cuts was next on the agenda. Markets had all the encouragement needed to price a perfect landing scenario. Despite the roller coaster of narrative shifts, shocks and pivots, ironically, US Treasury 10-year notes finished essentially where they started the year.

Market Performance	5-Jan	12-Jan
S&P 500		
Index Level	4,697	4,784
Pct. Chg. (%)		1.84%
BofA Merrill Lynch U.S. High-Yield Index		
Yield	8.06%	7.78%
Yield Δ		-28bps.
Bloomberg Barclays U.S. Aggregate Corporate Index		
Spread	103	96
Spread Δ		-7bps.
UST 10Yr. Yield	4.05%	3.94%
3-Month CAD Bankers' Acceptance	5.20%	5.16%

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The Fund generated positive returns for the year but trailed its benchmark. While it benefited from tactical duration positioning, modest exposure to credit while spreads tightened and below benchmark duration constraints drove relative underperformance. Government duration ended the year at 1.15 years, in the lower end of its annual range, as rates continued to fall. Some of the reduction was due to moving more gross dollars from the 30-year to more attractive parts of the curve during December. The Fund's corporate credit exposure remains modest at approximately 25% of portfolio duration as spreads and interest rates rallied together into year end. It holds CDX hedges of a little more than 1%.

We continue to believe that central banks have entered the pause phase of the tightening cycle. The timing and magnitude of central bank cuts will likely determine whether there is a hard or soft landing. Central banks had been messaging a patient and gradual move to cuts due to fears of repeating the mistakes that led to the inflationary environment of the 1970s. However, recent comments from several key policymakers at the US Federal Reserve suggest an increased possibility of earlier cutting action.

Markets have priced a very narrow path where disinflation continues to the central banks' targets, but then promptly stops. If inflation continues to fall past target, it's likely because of a larger negative output gap and slower growth than is currently priced into equities and credit. Alternatively, if inflation proves sticky, rate cut expectations are too aggressively priced into government bond markets.

For this cycle, yields above 4% remain attractive in our view. However, uncertainty surrounding policy and economic narratives in 2024 should lead to tactical trading opportunities. Passive strategies are likely to see below average risk adjusted returns. We expect the environment will require a willingness to frequently adjust duration, credit risk, maturity composition, inflation protection and country exposure. The Fund will be focused on tactically shifting exposures during bouts of volatility, while generating carry from high quality fixed income securities.

Sources: Marret Asset Management Inc., Bloomberg Finance L.P., January 12, 2023.

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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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