CI PRIVATE POOLS™

CI Global Enhanced Government Bond Private Pool
Third-quarter 2019 Commentary

Paul Sandhu, President and Chief Executive Officer
Adam Tuer, CFA, PhD, Vice-President, Portfolio Manager and Head of Research

Market Overview

- Risk markets performed well in September, ending the quarter strongly. They were able to withstand some earlier volatility caused by re-escalating trade tensions and weakening global growth.

- July marked the U.S. Federal Reserve's (the "Fed's") first interest rate cut in over a decade, creating a strong technical demand for fixed income. This also led to further optimism that the economic cycle could be extended. However, in August, it seemed that the global economy may already be weakening at too fast a pace.

- The U.S. manufacturing Purchasing Managers Index fell into contraction territory for the first time since 2009, while the U.S. yield curve inverted, which was last seen in 2007. Recession fears reignited in response to weak global economic data, driving global bond yields even lower. This was exacerbated by renewed trade tension, as a fresh round of U.S. tariffs went into effect on September 1, which also resulted in retaliatory tariffs imposed by China.

- Risk markets were still able to recover, lifted by further central bank easing. The Fed delivered a second rate cut in September, while also indicating that it is ready to cut further if necessary.

Outlook

- Looking forward, risk markets have remained firm despite significant deterioration in economic conditions, both in the United States and globally. Historically, economic deterioration has led to risk-off sentiment. While the U.S. consumer currently remains resilient, the manufacturing sector has now firmly entered contraction, and there are early signs that the services sector may be softening as well. At the same time, global economic policy uncertainty has never been higher, leading to a further softening in global capital expenditures, which is also dampening growth.

- While our experience has historically shown us that now is a time for caution, we are also prepared to reassess our current stance and adjust duration more aggressively if any critical conditions change. For example, if risk sentiment shifts to focus more on the persistently weak economic environment we are currently facing, that would support additional duration exposure. If there was an expectation that fundamental data will improve and central bank actions are successful in stabilizing the economy and extending the cycle, or that trade conflict will be resolved for the intermediate term, both of these scenarios would remove the uncertainty that has contributed to weakening global growth, which would call for lower duration exposure.

- In the absence of any of these conditions, we intend to continue to be positioned moderately above benchmark duration.

Sources: Bloomberg Finance L.P. and Marret Asset Management Inc., as at September 30, 2019.

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