CI Global Investment Grade Credit Private Pool
Third-quarter 2019 Commentary

Market Overview

The past two quarters were characterized by a persistent slowdown in global economic growth and trade, with a particularly acute slowing in the manufacturing sector. In response to the slowdown, the softening of inflation dynamics in advanced economies and heightened trade tensions (e.g., between the U.S. and China, Japan and South Korea, and the U.K. and European Union), central banks globally have continued to provide additional monetary policy support. The prompt support provided by central banks caused both bond and risk markets globally to rally during the period.

Risk markets performed well in September 2019, ending the third quarter of 2019 strongly, as they were able to withstand some earlier volatility induced by a re-escalation of trade tensions and weakening global economic growth. July 2019 marked the first interest-rate cut by the U.S. Federal Reserve (the "Fed") in over a decade, creating a strong technical demand for fixed income and leading to further optimism that the current economic cycle could be extended. In August 2019, however, we saw the harsh reality 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 (for two- and 10-year bonds) inverted, which was last seen in 2007. Recession fears were reignited in response to weak global economic data, driving global bond yields even lower. This was exacerbated by renewed trade tensions as a fresh round of U.S. tariffs on Chinese imports went into effect on September 1, 2019, which also resulted in retaliatory tariffs imposed by China. Risk markets were still able to recover, lifted by further monetary-easing measures by central banks, with the Fed delivering a second interest-rate cut in September while also solidifying a message that it was ready to cut interest rates further if necessary.

Fixed-income markets tend to perform best in environments of slowing growth expectations, low inflation and accommodative central bank policy.

Outlook

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

While our experience has historically shown us that now is a time for caution, we are also prepared to reassess our stance for CI Global Investment Grade Credit Private Pool (the "Fund") and adjust the Fund's duration and credit risk more aggressively if any of the following critical conditions change: 1) a shift in risk sentiment that focuses more on the persistently weak economic environment we are currently facing that would support additional duration exposure and higher-quality credit exposure; 2) a belief that fundamental data will improve and actions by central banks are concluded to be successful in stabilizing the global economy and extending the current economic cycle; or 3) a view that trade conflict will be resolved for the intermediate term, which would remove the overhang of uncertainty that has contributed to weakening global economic growth, both of which would call for lower duration exposure and more credit exposure for the Fund. In the absence of any of these conditions, we will continue to be patient and look to generate stable returns focusing on capital preservation.

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

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