

## Signature Global Bond Fund Second-quarter 2020 Commentary

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Class F returns (in %) as at June 30, 2020	Year- to- date	1 year	3 year	5 year	10 year	Since inception (2000-08-08)
Signature Global Bond Fund	8.2	8.2	4.0	4.1	4.3	3.8

Sources: Bloomberg Finance L.P., Signature Global Asset Management as at June 30, 2020.

### Performance Summary

- Signature Global Bond Fund Class F (the Fund) returned 0.3% over the second quarter of 2020, outperforming its benchmark, the JPM Global Government Bond Index (CAD unhedged), which returned -2.9%.

### Contributors to Performance

- An overweight exposure to a variety of credit spreads contributed to the Fund's total and alpha returns. Namely, allocations to U.S.-dollar investment-grade corporate bonds, U.S.-dollar emerging market sovereigns, U.S. inflation-linked bonds (TIPS), and Canadian provincial government bonds helped performance, as spreads tightened throughout the quarter. The U.S. Federal Reserve (the Fed), Bank of Canada, the European Central Bank and other central banks launched bond-purchase programs, and governments provided significant stimulus packages stabilizing markets and providing investors with confidence to re-engage risky assets.
- An underweight exposure to safe-haven G10 currencies (U.S. dollar, Japanese yen and euro) relative to an overweight exposure to pro-cyclical G10 currencies (Canadian dollar, Australian dollar, and Swedish krona) contributed to the Fund's alpha performance, as economies began to re-open in the second quarter and investor global risk sentiment improved.

- An overweight duration exposure to higher-yielding rates markets (Australia, Canada, the United States) relative to negative-yielding rates markets (Europe and Japan) also contributed to the Fund's total and alpha returns.

### **Detractors from Performance**

- The main detractor from performance was the appreciation of the Canadian dollar relative to its safe-haven G10 peers, namely the U.S. dollar, Japanese yen and euro.

### **Portfolio Activity**

- The Fund's positions in U.S.-dollar investment-grade corporate bonds, U.S.-dollar emerging market sovereign bonds, and Canadian-dollar provincial government bonds were significantly increased throughout the second quarter, as investor global risk sentiment rebounded alongside the global economic recovery.
- The Fund began to take profits on its U.S. TIPS exposure throughout the second quarter by selling 30-year TIPS in favour of equivalent maturity U.S. government bonds.
- Purchases of U.S. agency mortgage-backed securities (MBS) were among the Fed's initial monetary policy responses in March, which saw MBS spreads tighten meaningfully by the start of the second quarter. As opportunities arose to purchase corporate bonds, the Fund's MBS exposure was reduced (by nearly 2%) to raise the required cash.
- Alongside the significant increase to the Fund's credit risk, duration exposure (interest-rate risk) was increased to diversify the Fund's active risk. This was accomplished by buying 10- to 30-year Canadian government and provincial bonds from cash.

### **Outlook**

- Although the initial fiscal and monetary responses to the global pandemic were swift, decisive and effective, more policy support is expected in the coming months. Accommodative policies must remain in place for the next several years to help economies close their output gaps. If economic lockdowns will not be implemented again, even against a backdrop of a resurgence of COVID-19 cases, it could take the U.S. and Canadian economies up to three years to recover to 2019 GDP levels. Premature tapering of fiscal and monetary stimulus poses a risk to economic recoveries in North America and abroad.



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- As debt levels explode higher from already elevated levels (pre-pandemic), ratings agencies are putting governments (sovereigns and sub-sovereigns) on negative watch or downgrading them. Fitch recently downgraded issuer ratings for the government of Canada and the province of Alberta. The market response has been limited, as debt burdens have deteriorated across the world and as real interest rates have collapsed to zero or negative, globally. With monetary policy expected to remain accommodative for the next several years, Canada, individual provinces, and individual municipalities will be able to continue funding their debts at little to no cost despite ratings changes.
- Energy prices have rebounded alongside supply cuts and the initial sharp demand recovery in the late second quarter. However, looking ahead, the demand recovery is expected to wane as the economic re-openings are accompanied by increases in COVID-19 cases in Canada, the United States and other countries. Given the sharp contractions in capital expenditures (30-40%) from major North American oil producers earlier this year, supply is likely to remain on the lower end providing pricing support to the energy market and, in turn, some relief to the commodity producing provinces.
- As we expected, longer maturity (10- to 30-year) government bonds have maintained their negative correlation with risky assets throughout the second quarter and this relationship is expected to persist. However, we maintain the view that short-to-medium-term government bonds (up to 10 years to maturity) will not be able to generate high positive returns if risky assets fall once more. Therefore, cash, foreign currencies, commodities, and derivatives will grow in importance as defensive asset classes. Meanwhile, U.S.-dollar emerging market sovereign bonds and investment-grade corporate bonds will provide much-needed carry, and we expect investor appetite to remain strong for the foreseeable future.

Sources: Bloomberg Finance L.P. and Signature Global Asset Management.

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