

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

Market Overview

The end of the first quarter of 2019 was packed full of dovish surprises, even surpassing the market's already dovish expectations.

The first was with the European Central Bank (ECB) President Mario Draghi announcing the launch of a new bank lending operation (TLTRO III), and even after publishing significant cuts to the ECB staff's economic projections, he kept the language that "risks remain tilted to the downside." Draghi, himself, highlighted the uniqueness of retaining this phrase.

Not to be outdone, the U.S. Federal Reserve (the "Fed") followed with its own announcements that were rife with dovish projections. The Fed's forecast for short-term interest rates was revised substantially lower, essentially showing no further hikes in interest rates this year, while its projections for U.S. economic growth were revised lower. Importantly, the Fed's balance sheet run-off was also announced to end by this upcoming September, earlier than some U.S. Federal Open Market Committee (FOMC) members had suggested in speeches and interviews leading up to the FOMC's March meeting.

Finally, the announcement of a weak German manufacturing Purchasing Managers' Index saw the yield on 10-year U.S. Treasuries fall below the 2.50% level, while 10-year German Bunds dove toward -0.10%. This caused traders and hedgers alike to cover short exposures, at the same time as passive investors had month- and quarter-end rebalancing (i.e., forced buying). This dynamic left interest rate markets exiting the quarter tactically overbought and vulnerable to any sort of positive news.

The Fund increased duration close to benchmark (approximately 7.0 years) in the days after the Fed meeting; however, the fund reduced duration back into a range of 5.0–6.0 years into month-end, as it is our expectation that rates can rise in the short-term on positive economic news coming out of China or Germany.

Fund Positioning

During the quarter, overall duration for the portfolio of CI Global Enhanced Government Bond Private Pool (the "Fund") was moderately underweight versus its benchmark, the J.P. Morgan

Global Government Bond Index. Based on currencies, the Fund's portfolio was modestly overweight in the U.S. versus Canada. And in terms of yield to maturity, the Fund was overweight in 10-year bonds versus the front end of the yield curve and 30-year bonds.

Portfolio Activity

We increased the Fund's duration, primarily with U.S. Treasury 30-year bonds. Sold from the Fund's portfolio were 5-year Government of Canada bonds.

Sources used: Marret Asset Management Inc. and Bloomberg L.P.

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