

**A NOTE FROM BRIAN CARNEY**  
PORTFOLIO MANAGER OF THE VPI INCOME POOL

### PREPARED TO TAKE ADVANTAGE OF OPPORTUNITIES

#### What's happened to date in 2020?

COVID-19 dominating headlines.

- Economic slowdown, possibly contraction, highly likely.
- Prior to COVID-19 U.S. economic expansion on track with GDP growth 2.1%, unemployment 3.5% and CPI 2.5%. Canada lagging but growth still positive.

Monetary response to a medical emergency.

- Bank of Canada, Federal Reserve each cut administered rates 50bps to 1.25% the week of March 2nd. Bank of England (March 26) and ECB (March 12) meetings coming up. Policy changes pending.
- Similar to BOC rate cuts in January and July of 2015 (in response to drastic fall in price of WTI) we think cuts are ill advised and ultimately will prove ineffective.
- The solution to Coronavirus and its effects must come from sound public policy and the passage of time. Lower interest rates will not resolve supply chain disruptions, alleviate consumer anxiety, and overcome quarantine constraints.
- Post Coronavirus, economic expansion expected to resume with U.S. leading way. Lower administered rates add to likelihood of escalating inflation.

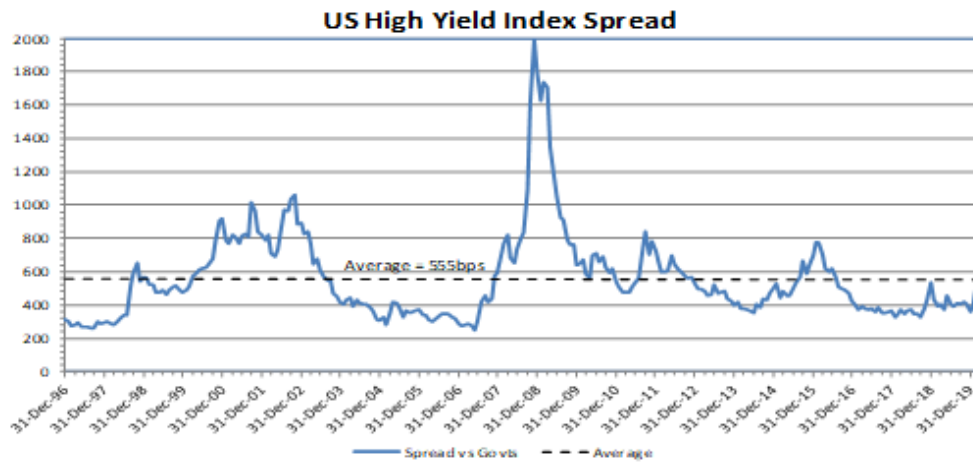
Longer term bond yields plummeted.

- Canadian and U.S. 10 year yields lower by ~150bps year to date. Canada and U.S. 10 year bonds traded this morning as low as 0.25% and 0.41% respectively.



Credit spreads wider.

- Investment grade spreads 14bps wider in Canada, 50bps in U.S year to date (as of Friday).
- High yield spreads 150bps wider year to date (as of Friday).



### What is to be done?

- Take risk when compensated for doing so.
- Preserve capital, take advantage of opportunity.
- Risk in longer dated fixed rate securities is greater than ever. Corporate index duration at 7.1.
- Investors in index benchmarked fixed income funds or ETF's should consider shift into shorter duration strategies.
- Credit markets in midst of repricing.

### How is Canso positioned?

- Portfolio is short duration (1.4 years) with 60% in floating rate notes.
- 40% of portfolio in AAA rated securities. BMO, RBC and TD Covered Bonds (18%) and NHA MBS (21%)
- ~20% non-investment grade.
- Lots of dry powder to take advantage of opportunities in widening risk premium environment across investment grade, high yield and leveraged loans.

Brian Carney  
Portfolio Manager, VPI Income Pool

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**VALUE  
PARTNERS**  
INVESTMENTS

300 - 175 Hargrave St, Winnipeg, Manitoba R3C 3R8  
TF: 866 323 4235 P: 204 949 0059 F: 204 949 1743

**VALUEPARTNERSINVESTMENTS.CA**