# Bridgehouse Canadian Bond Fund

## Fund Commentary

In the first quarter of 2022, the Canadian economy remained solid amidst health measures aimed at reducing the spread of the COVID-19 variant Omicron. The Canadian gross domestic product ("GDP") increased by 0.2% in January, pushing real GDP numbers above pre-pandemic levels.[1] Moreover, the prospect of economies reopening during the second half of the quarter drove the Canadian unemployment rate lower, which reached 5.3%, its lowest level since 1976.[2] While economic indicators continued to improve, the quarter ended with heightened volatility in financial markets. The recent European conflict combined with more hawkish central banks and the recent Omicron related lockdowns in China created some worry among market participants on the sustainability of the economy. In addition, the U.S. 2-10 year yield curve, which has historically been perceived as a market signal for recessions, slightly inverted during the quarter, causing recession fear to weigh on investors' sentiment.

Canadian fixed income returns were negative for the quarter as yields across the Government of Canada ("GoC") yield curve moved substantially higher since the start of the year against the backdrop of elevated inflation prints and more hawkish central banks. As expected, North American central banks delivered their first rate hike and raised benchmark policy rates by 25 basis points in March. Consequently, the increase in yields was more pronounced at the front end of the curve. As a matter of fact, the two-year GoC bond yield increased by 134 basis points, while the 30-year GoC bond yield increased by 70 basis points.[3] As a result, the yield curve flattened over the quarter. While acknowledging the uncertainties related to the geopolitical situation and its economic implications, North American central banks have reiterated that they view inflation, which is hovering around its 30-year high in Canada, as a more pressing problem to tackle unless the growth outlook markedly deteriorates. Meanwhile, the war in Ukraine and the fear that higher interest rates could hinder economic growth caused Canadian corporate spreads to widen by 27 basis points over the quarter.[4]

In the first quarter, the Bridgehouse Canadian Bond Fund posted a negative absolute return, but outperformed its benchmark, the FTSE Canada Universe Bond Index. The portfolio benefited from its short duration position as well as yield enhancement from its commercial mortgage exposure.

Over the quarter, we (TDAM) decreased our below benchmark duration exposure and neutralized our duration position. Spurred by inflation pressures and more hawkish central banks, yields increased materially over the quarter and approached the top of our trading range. Moreover, we believe that higher rates may negatively impact the economy and increases the risk of an economic slowdown. Therefore, while we already covered the majority of our short positions, we will be more inclined to augment our duration relative position if interest rates continue to rise for the remainder of the year. From a credit perspective, we tactically increased the credit weight in the portfolio given our relatively more defensive posture when entering the recent European geopolitical crisis, which caused spreads to significantly widen. That being said, we are not looking to carry this tactical overweight for the long term. Therefore, as spreads move back to normal ranges, we will reduce our credit positioning accordingly.

[1,2,3]Bloomberg L.P. [4]FTSE Global Capital Markets Inc.



BRIDGEHOUSE ASSET MANAGERS

# Bridgehouse Canadian Bond Fund

## Fundamentals

| | FUND | INDEX |
|---|---|---|
| Average Maturity (years) | 10.9 | 10.5 |
| Average Duration | 7.8 | 7.8 |
| Yield to Maturity | 3.2% | 3.0% |
| Average Coupon | 3.0% | 2.8% |

| | FUND | INDEX |
|---|---|---|
| AAA | 23.8 | 36.2 |
| AA | 29.4 | 35.6 |
| A | 26.4 | 16.3 |
| BBB | 20.4 | 11.8 |
| <BBB | 0.0 | 0.0 |

BRIDGEHOUSE
ASSET MANAGERS

# Bridgehouse Canadian Bond Fund



Published May 18, 2022