

# IA Clarington Monthly Income Balanced Fund

## Manager commentary – Q3 2024

During the six-month period ending September 30, 2024, the global economy continued its path towards normalization with notable developments across key regions.

The Canadian economy appears to be in a precarious situation on a per-capita basis, as its weak productivity remains a challenge despite strong population growth. The housing market remains at risk as the Bank of Canada is rushing towards a neutral policy interest rate of about 3%, which is expected to be reached by mid-2025. The timing and pace of interest-rate cuts support a reacceleration of real Canadian economic growth in 2025, as well as an exit from the prolonged per-capita recession (when GDP per capita falls in two consecutive quarters). Gross domestic product or GDP is the total dollar value of all goods and services a country produces over a specific period. Real economic growth or real GDP is GDP adjusted for inflation or deflation (when prices fall).

The S&P/TSX Composite Index, representing the Canadian equity market, returned 10.0% for the six-month period ending September 30, 2024, led by the materials, utilities and real estate sectors. On the fixed-income side, the FTSE Canada Universe Bond Index returned 5.6% for the period, assisted by interest-rate declines.

The U.S. economy continued to normalize. The pace of job creation has slowed since April, and historical revisions have shown that fewer jobs than initially reported have been created since the spring of 2023. While hiring has slowed down, the participation rate (estimate of an economy's active workforce) has continued to rise, leading to a higher unemployment rate. At the end of the third quarter, the U.S. economy was displaying more signs of stability than weakness, especially in terms of consumer spending, which remained robust. Inflationary pressures eased, indicating a shift towards a more sustainable growth path.

Globally, disinflation (slowdown in the growth of prices) continued as supply-chain pressures eased and commodity prices stabilized. For instance, the eurozone reported that inflation had dropped to 1.8% in September, and inflation in emerging markets has generally trended downwards. This has opened the door to synchronized interest rate cuts from global central banks, adding liquidity to the global economy.

Europe remains stuck in subdued growth, with Germany showing no real growth since early 2022. Challenges include weak demographics, lack of productivity growth (the growth of output not accounted for by the growth of an input or inputs), the absence of synchronized intra-eurozone fiscal policy and a weak Chinese economy. That said, the recent bottoming of the credit cycle points to an early sign of changing fortunes.

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In China, a balance-sheet recession poses significant challenges. A balance sheet recession is a type of economic recession that occurs when high levels of private sector debt cause individuals or companies to collectively focus on saving by paying down debt rather than spending or investing, causing economic growth to slow or decline. Despite the government's fiscal stimulus and loose monetary policy, concerns about high debt levels and a struggling property market have hampered a robust recovery. In such an environment, a loose monetary policy becomes ineffective as demand for loans crumble, while direct cash transfers to households, which was proposed in China in September, become a viable solution.

The Fund's overall asset allocation had little effect on overall performance and was not significantly changed during the period.

Within the Fund's equity component, top contributors to performance included foreign equity exposures, primarily through positions in IA Clarington U.S. Dividend Growth Fund and IA Clarington Global Multifactor Equity Fund. The Fund's direct Canadian equity exposure and exposure to IA Clarington Dividend Growth Class also contributed to performance.

Within the Fund's fixed-income sleeve, exposure to high-yield bonds, primarily through IA Clarington Strategic Corporate Bond Fund, contributed to performance. The Fund's exposure to provincial bonds also contributed to performance, as did security selection in short-term federal bonds.

Top detractors to performance within the Fund's equity sleeve included IA Clarington Strategic Equity Income Fund and the equity sleeve of IA Clarington Strategic Income Fund, primarily due to its underweight exposure to the materials sector, overweight exposure to the industrials sector and security selection in the consumer discretionary sector. The Fund's exposure to IA Clarington Thematic Innovation Class also detracted, primarily due to security selection within the industrials, health care and information technology sectors.

Within fixed income, the Fund's exposure to municipal bonds detracted from performance.

The fund manager's outlook for equities is influenced by opposing factors: challenging valuations and a consensus that remains optimistic about future developments in artificial intelligence, with a supportive corporate earnings outlook. Overall, the fund manager still has a relatively optimistic view on equity markets, with a focus on U.S. and Canadian equities. At the other end of the equity spectrum, the fund manager is less optimistic about Chinese equities, as the overhang from the property market downturn continues to constrain the economy and policymakers remain reluctant to provide stimulus.

The U.S. Federal Reserve's shift from inflation to growth signals a cyclical change in the role that fixed income can play in portfolio construction. In a world more concerned with growth than inflation, the fund manager believes fixed income can potentially act as a protection against downside equity risk

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within an equity-centric portfolio, as the central bank can provide a buffer to a slowing economy by cutting interest rates, leading to fixed-income gains that may cushion equity volatility (interest rates and bond prices are inversely related).

The Fund maintains a small position in gold. Global central bank purchases of the commodity have paused in recent months, but the current peak in U.S. real interest rates is supporting gold and bringing renewed interest from retail investors.

Fund and benchmark performance, as at September 30, 2024	1 year	3 year	5 year	10 year
<b>IA Clarington Monthly Income Balanced Fund – Series T6</b>	20.6%	5.2%	6.1%	5.1%
<b>40% FTSE Canada Universe Bond Index, 60% S&amp;P/TSX Composite Index</b>	21.1%	5.7%	6.9%	5.9%

Non-traditional fixed income asset classes may carry higher risk, but generally provide higher yield than traditional fixed income asset classes. A mutual fund's "yield" refers to income generated by securities held in the fund's portfolio and does not represent the return of or level of income paid out by the fund.

For definitions of technical terms in this piece, visit [iaclarington.com/glossary](http://iaclarington.com/glossary) and speak with your investment advisor.

The performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted market indices. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The benchmark is a blend of 40% FTSE Canada Universe Bond Index and 60% S&P/TSX Composite Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The FTSE Canada Universe Bond Index is comprised of Canadian investment grade bonds and has significantly different portfolio duration characteristics. The FTSE Canada Universe Bond Index consists of a broadly diversified selection of investment-grade Government of Canada, provincial, corporate, and municipal bonds issued domestically in Canada. The S&P/TSX Composite Index is the premier indicator of market activity for Canadian equity markets, with 95% coverage of Canadian-based, TSX-listed companies. The index includes common stock and income trust units and is designed to offer the representation of a broad benchmark index while maintaining the liquidity characteristics of narrower indices. The Fund's fixed income component may have different sector exposure, credit quality and interest rate sensitivity than the benchmark. The Fund may have exposure to equities and bonds domiciled both in Canada and outside of Canada while the benchmark only has

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exposure to equities and bonds domiciled in Canada. The Fund may have currency risk exposure while the benchmark has none. The Fund may hold cash while the benchmark does not. Overall, the Fund's bond and equity exposure can differ, because the Fund does not use a fixed ratio similar to the benchmark. It is not possible to invest directly in market indices. The performance comparison is for illustrative purposes only and does not imply future performance.

Indicated mutual fund rates of return include changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Returns are historical annual compounded total returns.

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