IA Clarington Loomis Global Multisector Bond Fund

Manager commentary – Q4 2024

Fourth-quarter market sentiment was largely driven by the much-anticipated U.S. election, during which Donald Trump was elected as the 47th president. Republicans took majority control of the Senate and maintained the House of Representatives for a clean sweep. The initial reaction in risk assets was positive, which we believe was likely driven by many investors who had held underweight exposure to risk assets coming into the election, given the uncertain outcome. The decisive outcome of the election supported market sentiment owing to the potential for pro-growth policies, such as tax cuts and deregulation. Post-election, the U.S. Federal Reserve (Fed) continued on its easing path with 25 basis points (bps) in interest rate cuts during November and December. However, the market re-priced expectations for fewer rate cuts in 2025 and beyond. The Treasury curve shifted higher during the quarter, with the 10-year U.S. Treasury increasing from 3.78% to 4.57%. Investment-grade and high-yield spreads tightened, supported by higher expectations for an economic "soft landing" and strong investor demand for yield.

During the quarter, security selection and yield curve positioning contributed to the Fund's performance. Positive performance in investment-grade corporate credit came from an overweight position relative to the benchmark, as well as idiosyncratic exposure in the technology and the metals and mining industries. Security selection within high-yield corporate credit, specifically the communications sector, were contributors. The Fund's allocation to convertible securities was also beneficial, led by higher-conviction names in the communications and cruise-line industries. On average, overall portfolio duration was shorter on a relative basis, which helped performance as yields pushed higher during the period. Exposure to non-U.S. dollar issues was a slight detractor from performance as a result of Australian and South African-denominated sovereigns.

Our base case continues to call for trend/above-trend U.S. economic growth, and we do not anticipate a recession at this time. Low unemployment and healthy financial markets (i.e., strong equity performance and real estate appreciation through COVID-19) are supporting the mid-to-upper tier consumer, who typically drive much of the U.S. economy. In addition, corporate fundamentals have remained stable and earnings growth is robust, which are also supportive of economic activity. These factors are helping to provide a floor to economic activity, and we expect growth consistent with a "soft landing" in the coming quarters. On a global basis, European growth is gradually improving but momentum has slowed, and we see inflationary risks persisting. We expect European Central Bank rate cuts to be more gradual than market expectations as a result. We also anticipate a rise in government borrowing, as we believe an investment-oriented set of fiscal measures is required to boost growth. In Japan, we expect increased tolerance for higher yields by the Bank of Japan if the bank's confidence grows regarding the achievement and sustainability of 2% inflation. Lastly, the People's Bank of China has stepped up stimulus efforts to address economic challenges, ensuring necessary fiscal spending to bolster growth; however, we believe uncertainty remains regarding the scale and effectiveness of such measures.

Cyclically, we expect U.S. inflation to decline in the coming months before leveling out somewhere just above the Fed's 2% target. In the short term, we believe there is a potential upside risk to inflation as a result of Trump's policies, specifically tariffs, and that inflationary pressures could begin to build with a lag now that the Fed has embarked on a rate-cutting cycle and the economy potentially builds momentum. On a long-term basis, we have been suggesting that inflation may remain unstable and potentially experience higher lows in future cycles given structural factors like the fiscal deficit, trade protectionism, deglobalization, decarbonization and aging demographics.

Combining our cyclical and structural views suggests the level of interest rates and the shape of the yield curve could take a number of different paths. On the front end of the curve, we recognize the risk that the Fed may be compelled to hold interest rates steady or to lean against stimulating fiscal spending and inflationary tariff hikes. It is possible we could see an initial short-term boost in growth and inflation from government policies, which could potentially put the Fed on hold in the second half of 2025, in our view. The dual mandate of the Fed is back in focus, so a measured response is likely, and we have moderated our view of future Fed rate cuts for a shallower cycle with a trough rate expectation of 3.75-4.25%, likely reached in 2026. We see little scope for the 10-year and longer maturities to rally as we believe the U.S. deficit is structural in nature and do not expect a "hawkish" stance on fiscal responsibility under the new administration. We believe Treasury supply will continue to be a topic of heavy discussion, which could increase interest rate volatility and put a floor under long-term Treasury yields or potentially push them higher. We believe long-term fair value for the 10-year U.S. Treasury is approximately 4.50%, based on a 1.50-2.00% real rate and 2.25-2.50% breakeven rate; however, Trump's policies could push the fair value target slightly higher.

In our view, the credit cycle is firmly in the late-cycle stage. Corporate fundamentals appear stable, technicals have remained supportive and earnings growth is robust, which should fuel investor appetite in 2025. In our opinion, corporate balance sheets have remained healthy and can weather potential volatility in the macroeconomic backdrop. Our Credit Health Index and risk-premium framework within investment grade and high yield suggest defaults/losses will be below historical averages for this part of the cycle. Even though credit spreads appear optically on the higher side, it is difficult to see any real signs of credit deterioration. Credit risk premiums may not be cheap, but we do view them as being adequate given a benign loss backdrop. Technicals have remained supportive as investment-grade issuance has surprised to the upside but has been met with strong investor demand, and we continue to see this trend going forward where demand outpaces supply. In addition, specific to the high-yield market, we believe defaults may have already peaked for this cycle and most signs of distress seem idiosyncratic. The high-yield maturity wall also seems manageable through 2026, not posing a major threat after a wave of refinancing in 2024. Lastly, we are encouraged by corporate profitability and believe that earnings growth will be more inclusive across sectors in 2025.

We believe that long-term value has returned to fixed income markets with a combination of discount-to-par (positive convexity) and favourable yields. As investors sit on record levels of cash, we expect strong demand will likely support bond markets. We believe spreads have moved to the tightest levels of this cycle. Our view is that investors can feel comfortable going for the extra spread pick-up available in the credit markets. Spreads will likely live in a range that is typical of a non-stressed market, which for high-yield corporate bonds tends to be in the +275 to +425 bps range, so we are being patient and selective in deploying capital. We are mindful of the risks going forward, such as a growing U.S. deficit, trade protectionism (tariffs) and geopolitical risk. We continue to maintain some reserves as each of these risks could elevate market volatility and create potential buying opportunities in credit, interest rates and currencies, for which we would consider redeploying reserves faster. We believe our best approach is to maintain a yield advantage in our portfolios rather than waiting on the sidelines for a "risk-off" environment that may never materialize.

Fund and benchmark performance, as at December 31, 2024	1-year	3-year	Since inception (Jul. 2020)
IA Clarington Loomis Global Multisector Bond Fund – Series A	4.0%	-1.7%	-0.8%
Bloomberg U.S. Aggregate Bond Index (CAD Hedged)[1]	0.2%	-3.2%	-2.4%

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 and speak with your investment advisor.

[1]Source: Bloomberg L.P. The Bloomberg U.S. Aggregate Bond Index (CAD Hedged) is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

IA Clarington Loomis Global Multisector Bond Fund

The performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted indices. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The Fund's market capitalization, geographic, sector and credit quality exposure and interest rate sensitivity may differ from that of the benchmark. The Fund's currency risk exposure may be different from the benchmark. The Fund may hold cash while the benchmark does not. 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.

The information provided should not be acted upon without obtaining legal, tax, and investment advice from a licensed professional. Statements by the portfolio manager or sub-advisor represent their professional opinion and do not necessarily reflect the views of iA Clarington. Specific securities discussed are for illustrative purposes only and should not be considered a recommendation to buy or sell. Mutual funds may purchase and sell securities at any time and securities held by a fund may increase or decrease in value. Past investment performance may not be repeated. Unless otherwise stated, the source for information provided is the portfolio manager. Statements that pertain to the future represent the portfolio manager's current view regarding future events. Actual future events may differ.

Commissions, trailing commissions, management fees, brokerage fees and expenses all may be associated with mutual fund investments, including investments in exchange-traded series of mutual funds. The information presented herein may not encompass all risks associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

Trademarks displayed herein that are not owned by Industrial Alliance Insurance and Financial Services Inc. are the property of and trademarked by the corresponding company and are used for illustrative purposes only.

The iA Clarington Funds are managed by IA Clarington Investments Inc. iA Clarington and the iA Clarington logo, iA Wealth and the iA Wealth logo, and iA Global Asset Management and the iA Global Asset Management logo, are trademarks of Industrial Alliance Insurance and Financial Services Inc. and are used under license. iA Global Asset Management Inc. (iAGAM) is a subsidiary of Industrial Alliance Investment Management Inc. (iAIM).