

IA Wealth Core Bond Pool

Manager commentary – Q2 2024

Over the second quarter of 2024, bond yields traded in a 60-basis point (bps) range, ending the period where they had started. The Canadian 10-year bond yield, for example, began the quarter around 3.6%, moving higher by almost 30 bps on stronger-than-expected economic data in April. Heading into May, yields rallied on the back of weaker employment numbers, downward revisions to economic growth, a further decline in inflation and burgeoning signs of a slowdown in consumer spending. Eventually, 10-year yields bottomed around 3.3% in mid-June, but added 30 bps from there as inflation ran a little high and investors started pricing in a possible Donald Trump U.S. presidency.

We have a positive outlook on the fixed-income market. Bond yields are still hovering around multi-decade highs and, as such, we continue to believe they offer a very attractive risk/reward profile. Supporting this view is our expectation that growth in Canada will keep slowing in 2024 and that inflation will move lower still, causing the Bank of Canada (BoC) to reduce its overnight rate further. Against that backdrop, we anticipate ongoing yield volatility, which will afford us the opportunity to be active and tactical in our portfolio positioning.

During the quarter, the Fund held an overweight position in corporate bonds, which contributed to performance as corporate bonds outperformed the FTSE Canada Universe Bond Index. Also, our greater exposure to bonds with maturities of five years and less boosted the performance of the portfolio as the yield curve continued to slowly normalize.

The Fund also held an overweight position in non-rated municipal bonds with short maturities. As the yield curve pursued its normalization, our positioning in that segment benefited performance.

As was the case in the first quarter, our federal and provincial positionings were negative to the portfolio. We were underweight those segments but compensated by owning long-term bonds that performed poorly on a relative basis as the normalization of the yield curve favoured shorter-term bonds.

We start the third quarter with an overweight duration in the Fund compared to our benchmark, as we expect the economy to continue to slow down and the BoC to continue its just-started cycle of lowering interest rates. In that context, the yield curve should continue to slowly normalize. We added to our provincial exposure during the second quarter as spreads widened and we remain modestly overweight investment-grade credit, with a preference for shorter-term tenors. The Fund continues to hold an overweight position in non-rated bonds issued by municipalities in the province of Quebec.

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Fund and benchmark performance as at June 30, 2024	1 year	3 year	5 year	10 year
IA Wealth Core Bond Pool – Series A	3.0%	-2.4%	-0.7%	0.9%
FTSE Canada Universe Bond Index	3.7%	-1.8%	0.0%	1.9%

Non-traditional fixed income asset classes may carry higher risk, but generally provide higher yield than traditional fixed income asset classes. For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your financial 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 Fund's benchmark is the FTSE Canada Universe Bond Index, which 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 Fund's geographic, sector and credit quality exposure may differ from that of 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.

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