IA Wealth Balanced Portfolio

Manager commentary – Q4 2024

Interest rates rose sharply during the quarter, with the U.S. 10-year yield increasing by approximately 80 basis points. This surge led to negative returns for U.S. sovereign bonds, which declined by 3.1%. On the other hand, corporate bond spreads tightened, resulting in slightly positive returns for U.S. high-yield bonds, at 0.2%. Meanwhile, emerging market bonds faced challenges, delivering a return of -2.1%. Global equity markets continued their upward trajectory, with the MSCI World Index gaining 1.9%. Leading the charge were the Nasdaq Index (+6.3%), the Nikkei 225 Index (+5.4%) and the S&P/TSX Composite Index (+3.8%). However, the MSCI EAFE Index and MSCI Emerging Markets Index lagged, recording losses of -0.6% and -4.4%, respectively. Within equities, growth sectors relatively outperformed value sectors on a global basis.

The currency market experienced notable volatility, with the Canadian dollar tumbling 6.0% against the U.S. dollar. Commodity prices reflected mixed trends, as gold declined slightly by 0.4% while oil surged by 5.2%.

We continue to favour equities over cash and bonds, with a particular focus on Canadian, U.S., and Japanese markets. In Canada, the combination of improving earnings growth and aggressive easing measures by the Bank of Canada makes the equity market increasingly appealing despite persistent negative sentiment. The U.S. remains an attractive destination for investment, supported by a strong earnings outlook and the early development of secular themes related to artificial intelligence, which provide a significant tailwind. Similarly, corporate reform initiatives in Japan and a more accommodative Bank of Japan are expected to support earnings and broader market performance.

In the fixed-income space, while higher yields have created opportunities, we remain cautious owing to upside risks to interest rates driven by resilient economic growth and sticky inflation. The U.S. Federal Reserve's outlook for further policy easing has grown uncertain amid robust economic performance and slightly above-target inflation. These factors suggest that bond yields are likely to remain range-bound in the near term.

Within the currency market, we are adopting a contrarian perspective on the Canadian dollar. We believe the current bearish sentiment around Canada's economic prospects is overly pessimistic and are taking steps to hedge USDCAD exposure opportunistically. This positioning aligns with our view of a potential reversal in the loonie's fortunes by early 2025. At the same time, our outlook on gold has shifted, as we anticipate higher real interest rates in the U.S., continued strength in the U.S. dollar, and easing geopolitical risks to weigh on the metal's performance.

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Performance during the quarter was impacted by the underperformance of certain underlying managers, with the largest detractors being IA Clarington Global Equity Fund, Mackenzie U.S. Small-Mid Cap Growth Fund and Manulife Global Equity Class. From an asset allocation perspective, a slight overweight position in equities, particularly in Japan, added value, as did the underexposure to U.S. fixed income relative to Canadian fixed income.

Tactically, we remain focused on equities, particularly in Canadian, U.S. and Japanese markets, while continuing to hold underweight positions in fixed income and cash. We have initiated hedging strategies on USDCAD to benefit from a potential rebound in the Canadian dollar, and plan to expand these positions opportunistically in early 2025. Additionally, we hold small short positions on gold through futures contracts, reflecting our cautious stance on the metal amid evolving macroeconomic conditions.

This strategic positioning reflects our confidence in specific equity markets and sectors, while maintaining prudence in fixed income and a targeted approach in currency and commodity markets.

Fund and benchmark performance, as at December 31, 2024	1-year	3-year	5-year	Since inception (Apr. 2016)
IA Wealth Balanced Portfolio – Series B	11.9%	1.9%	4.1%	4.1%
7% S&P 500 Index (CAD), 10% ICE BofA US High Yield Constrained Index (CAD Hedged), 16% S&P/TSX Composite Index, 32% MSCI World Index^ (CAD), 35% FTSE Canada Universe Bond Index	17.9%	6.1%	8.1%	8.2%

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, please visit iaclarington.com/glossary and speak with your investment advisor.

^Source: MSCI Inc. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI.

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The Fund's strategy is to invest in other investment funds. 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 7% S&P 500 Index (CAD), 10% ICE BofA US High Yield Constrained Index (CAD Hedged), 16% S&P/TSX Composite Index, 32% MSCI World Index^ (CAD) and 35% FTSE Canada Universe Bond Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The MSCI World Index (CAD) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of 23 developed market country indices. 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 S&P 500 Index (CAD) includes 500 leading companies in leading industries of the U.S. economy and is widely regarded as the best single gauge of the U.S. equities market. 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 ICE BofA US High Yield Constrained Index (CAD Hedged) tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The Fund's geographic, sector and credit quality exposure may differ from that of the benchmark. The Fund's fixed income component can invest in both investment grade and high yield bonds while the benchmark has exposure only to investment grade bonds. The Fund may have different currency risk exposure than the benchmark. 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.

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.

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