IA Wealth Conservative Portfolio

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 U.S. economy continued to normalize over the period. 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.

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 (BoC) 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.

Globally, disinflation (reduction in the rate of inflation) 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 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.

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. China’s current economic backdrop resembles Japan’s 1990s experience, where a forced deleveraging effort neutralized consumer spending and business investments, essentially leading to fire sales on assets as the private sector focused on reducing aggregate debt. 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.

Regarding fixed income, the FTSE Canada Universe Bond Index returned 5.6% for the six-month period ending September 30, 2024, assisted by interest-rate declines.

Globally, equities delivered highly favourable results during the period. The S&P/TSX Composite Index, representing the Canadian equity market, returned 10.0%, led by the materials, utilities and real estate sectors. Its U.S. counterpart, the S&P 500 Index, returned 10.2% (in Canadian-dollar terms), led by the utilities, information technology and real estate sectors.

On the global front, the MSCI World Index and MSCI EAFE Index, returned 9.0% and 6.6% respectively, over the last six months (in Canadian-dollar terms).

During the period, the Fund generally held a relative overweight position in its equity underlying funds and an underweight position in its fixed-income underlying funds, which contributed to performance, as equities outperformed fixed income during the period. Top contributors to the Fund’s performance included IA Clarington Canadian Small Cap Fund, IA Clarington Loomis Global Multisector Bond Fund and IA Wealth Core Bond Pool, as they all outperformed on a relative basis.

Top detractors from the Fund’s performance included positions in IA Clarington Floating Rate Income Fund, IA Clarington Global Equity Fund, IA Clarington Thematic Innovation Class and Manulife Global Equity Class. The Fund’s slight underweight position in U.S. equities also detracted from performance, as did its overweight position in short-term securities (short-term securities typically offer lower rates of return, but are highly liquid, providing flexibility to withdraw money more quickly).

The Fund remained invested in gold in order to benefit from higher gold prices.

The fund manager strategically reallocated some of the Fund’s positions from fixed income to equities through a higher allocation to equity managers and a lower allocation to fixed-income exchange-traded funds.

Within fixed income, the fund manager increased the Fund’s allocation to corporate bonds (including high-yield corporate bonds) and core bonds, while reducing its allocation to short-term money market positions. A high-yield bond has a higher risk and a higher yield than a comparable investment grade bond. Core bonds primarily include investment-grade fixed-income, including government and corporate bonds.

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Within equities, the fund manager reallocated some of the Fund's positions to international and Canadian equities from U.S. equities. The Fund's allocation to emerging market equities was also increased.

The current environment remains favourable for equities as growth is resilient at or slightly above trend, and inflation is receding to target levels. The fund manager expects that the positive reverberations of the Chinese stimulus measures will extend to Asia more broadly, providing a favourable backdrop for Japanese equities.

The fund manager's view on bonds turned positive over the summer and has continued to improve as communications from central banks and incoming economic data have further supported a more optimistic view. With inflation finally showing signs of returning to target levels, the U.S. Federal Reserve (the Fed) and BoC are now able to support the economy through potential interest-rate cuts. From a portfolio construction perspective, this increases the value of bonds, as interest rates and bond prices are inversely related. Further bonds can potentially partially protect against downside equity risk.

The fund manager sees the current macroeconomic environment as being conducive to a weaker U.S. dollar. Historically, the U.S. dollar tends to be lower when growth hovers around trend levels, the Fed implements accommodative policy and there is a global wave of stimulus. The trend rate of growth is the rate of growth that an economy can sustain without causing major economic problems. The fund manager also sees a weak U.S. dollar as being favourable for gold.

The fund manager slightly favours equities and fixed income over cash. Within equities, the fund manager targets a slightly overweight exposure to Japan and some exposure to the Chinese market. Within U.S. equities, the fund manager moved some of the Fund's exposure away from mega cap companies in order to benefit from a sector rotation. Mega cap companies are those with market values well above the rest of the market, with valuations over $200 billion in USD.

Fund and benchmark performance, as at September 30, 2024	1 year	3 year	5 year	Since inception (Apr. 2016)
IA Wealth Conservative Portfolio – Series B	14.1%	0.4%	1.8%	2.1%
4% S&P 500 Index (CAD), 7% S&P/TSX Composite Index, 14% MSCI World Index^ (CAD), 15% ICE BofA US High Yield Constrained Index (CAD Hedged), 60% FTSE Canada Universe Bond Index	17.6%	3.1%	4.3%	5.0%

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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 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.

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 60% FTSE Canada Universe Bond Index, 15% ICE BofA US High Yield Constrained Index (CAD Hedged), 14% MSCI World Index^ (CAD), 7% S&P/TSX Composite Index and 4% S&P 500 Index (CAD). 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 (CAD) 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.

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