IA Clarington Global Risk-Managed Income Portfolio

Manager commentary – Q4 2024

The fourth quarter of 2024 saw significant developments across the global economy, with the U.S. election on November 5, multiple central bank cuts to interest rates, and diverging regional economic trends.

The U.S. economy continued outperforming its peers, as real GDP appeared on pace for 2.7% in 2024, more than double the consensus expectations recorded at the beginning of the year. Consumer spending remains solid, productivity is rising, and business sentiment is elevated. Donald Trump's victory promises an interesting year ahead on the macroeconomic and policy front, as the coming U.S. administration's first economic objective is to unlock the economic potential of the U.S. through deregulation and tax reforms. To date, Trump has been walking the talk, having already nominated policy "hawks" and regulation skeptics for most key administrative roles. Despite the political shifts, consumer spending remained robust, and inflationary pressures continued to ease, indicating a stable economic environment.

European macroeconomic data continued to show weakness, with subdued growth across the region. Germany struggled with stagnant growth, while southern European economies performed slightly better. The main questions hanging over the continent are whether the fight on inflation is progressing quickly enough, and if the European Central Bank can deliver every rate cut the market is pricing in for 2025, which would provide much-needed economic support.

China's economy is struggling with a balance-sheet recession (a balance sheet recession is when businesses and people stop spending because they are focused on paying off debt, which slows down the economy), with households and companies alike prioritizing debt repayment over spending or investing, leading to economic stagnation amid less consumption and investment. The situation is further complicated by the ongoing housing crisis, with billions of dollars tied up in incomplete projects. This predicament not only leaves homeowners and investors in a state of uncertainty, but also dampens overall activity as households prioritize saving over spending. In such an environment, traditional monetary policy measures are insufficient, and rate cuts by the central bank are equivalent to pushing on a string. Instead, history advocates for direct fiscal stimulus as the most effective solution. The Chinese government tried introducing multiple, timid policies to stimulate growth, but the economic recovery remains tepid.

Canada's economy is still feeling the "hangover" from the Bank of Canada's (BoC) strict monetary policy. Concerns about weak productivity and high household debt persist, and the political landscape remains uncertain, adding to the economic challenges. While the fight on inflation seems to have concluded in a resounding victory, with the BoC implementing two large rate cuts in the quarter (bringing the policy rate down to 3.25%), sights return squarely on the weak performance of real GDP per capita, which has contracted in eight of the last nine quarters. With household debt levels among the highest in the G7, Canada's housing market remains acutely sensitive to interest rate changes. Rising rates in recent years have slowed housing activity, but the five consecutive rate cuts in 2024 could reignite concerns that shelter inflation will make a comeback. The recent changes to Canada's immigration policy could keep housing and inflation under control, through subdued demand for housing.

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%.

Despite already-high yields, we believe that there is upside risk on interest rates, as a result of strong growth and persistent inflation. Accordingly, we remain vigilant and prudent regarding fixed income. The outlook for the U.S. Federal Reserve's (Fed) policy easing campaign has become uncertain given the resilient U.S. economy. With strong growth and slightly above-target inflation, the Fed may need to reconsider its current stance. Thus, bond yields are likely to be range bound over the short term.

The Fund's structural defensive positioning in equities detracted from performance, while its underweight position in emerging markets was a contributor. Top contributors to performance included IA Clarington Global Multi-factor Equity Fund, IA Clarington Dividend Growth Class and IA Clarington Strategic Equity Income Class.

The Fund will structurally remain underexposed to equities by design. The Fund also has overweight exposure to fixed income by design, which should benefit from attractive yields in many segments of the fixed-income asset class.

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Fund and benchmark performance, as at December 31, 2024	1 year	Since inception (Jan. 2022)
IA Clarington Global Risk-Managed Income Portfolio–Series A	11.8%	4.0%
15% S&P 500 Index (CAD), 15% Bloomberg Global Aggregate Bond Index (CAD Hedged), 15% S&P/TSX Composite Index, 10% MSCI AC World Index (CAD)[1], 25% FTSE Canada Universe Bond Index, 20% FTSE Canada 91 Day T-Bill Index.	13.4%	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 and speak with your investment advisor.

[1]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 15% S&P 500 Index (CAD), 15% Bloomberg Global Aggregate Bond Index (CAD Hedged), 15% S&P/TSX Composite Index, 10% MSCI AC World Index (CAD), 25% FTSE Canada Universe Bond Index and 20% FTSE Canada 91 Day T-Bill 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 AC World Index (CAD) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 50 country indexes comprising 23 developed and 27 emerging market country indexes. 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 Bloomberg Global Aggregate Bond Index (CAD Hedged) is a flagship measure of global investment grade debt from twenty-eight local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. There are four regional aggregate benchmarks that largely comprise the Global Aggregate Index: the US Aggregate, the Pan-European Aggregate, the Asian-Pacific Aggregate, and the Canadian Aggregate Indices. The Global Aggregate Index also includes Eurodollar, Euro-Yen, and 144A Index-eligible securities, and debt from five local currency markets not tracked by the regional aggregate benchmarks (CLP, COP, MXN, PEN, and ILS). A component of the Multiverse Index, the Global Aggregate Index was created in 2000, with index history backfilled to January 1, 1990. The Fund may have different currency risk exposure than the benchmark. FTSE Canada 91 Day T-Bill Index consists of a benchmark that tracks the performance of Government of Canada Treasury Bills, with 3-month T-Bills. The index is designed to reflect the performance of a portfolio that only owns a single security, the current on the run T-Bill for the relevant term, switching into the new T-Bill at each auction. The Fund’s market capitalization, geographic, sector and credit quality exposure may differ from that of the benchmark. The Fund’s currency risk exposure may be different than that of 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.

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.

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