IA Wealth Enhanced Bond Pool

Manager commentary – Q3 2024

During the six-month period ending September 30, 2024, the global economy continued its path toward 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 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 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 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 welcome 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.

Overall, the underlying funds contributed to performance over the six-month period ending September 30, 2024. Contributors to the Fund’s performance included IA Clarington Loomis Global Multisector Bond Fund, IA Wealth Core Bond Pool and PIMCO Monthly Income Fund, as they all outperformed their respective benchmarks.

Top detractors from the Fund’s performance were positions in IA Clarington Core Plus Bond Fund and IA Clarington Strategic Corporate Bond Fund.

The portfolio manager’s view on bonds turned positive over the summer and has continued to improve as communications from central banks and incoming data have further supported a more optimistic view. With inflation finally showing signs of returning to target levels, the U.S. Federal Reserve 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 and interest-rate sensitivity, as these assets can effectively hedge equity risk.

The Fund is structurally positioned with a lower duration and an overweight exposure to corporate bonds versus its peer category (product design). However, its tactical asset allocation slightly reduces this tilt through small, long positions in long-term U.S. Treasuries and underweight positions in underlying funds that are more exposed to credit risk.

Fund and benchmark performance, as at September 30, 2024	1 year	3 year	Since inception (Jul. 2020)
IA Wealth Enhanced Bond Pool – Series B	12.1%	-0.5%	-0.3%
25% Bloomberg U.S. Aggregate Bond Index (CAD Hedged)[1], 75% FTSE Canada Universe Bond Index	12.3%	-0.6%	-1.1%

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.

[1]Source: Bloomberg L.P.

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 25% Bloomberg U.S. Aggregate Bond Index (CAD Hedged) and 75% 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 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. 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 Fund's fixed income holdings may have different sector exposure, credit quality and interest rate sensitivity than the benchmark. The Fund may have currency risk exposure while the benchmark has none. 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.

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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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