IA Clarington Global Balanced Plus Portfolio

Manager commentary – Q4 2024

The Fund was launched on June 17, 2024. Performance data is not presented for a Fund that has been distributing securities for less than 12 consecutive months.

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, 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.

During the period, longer-dated bonds in the U.S. experienced the weakest relative performance. Rate-sensitive categories, such as Treasuries and mortgage-backed securities, lagged the headline investment-grade indexes. On the other hand, credit-oriented investments—including asset-backed securities, high-yield bonds and bank loans—held up better amid mounting optimism about the economy and strength in investor risk appetites.

Global developed-market bonds generally registered losses in local-currency terms amid a broad uptrend in yields worldwide, but most outpaced the U.S. The modest outperformance largely reflected interest-rate differentials and the weaker growth prospects across Europe and Asia. However, non-dollar debt suffered a sizable loss in U.S.-dollar terms owing to the adverse effect of currency movements. U.K. gilts were particularly weak, as concerns about the nation's fiscal issues weighed on its fixed-income and currency markets. Emerging-market debt also recorded losses in U.S.-dollar terms, with currency translation acting as the primary driver of the shortfall.

The Fund was launched in June 2024 and is composed of four underlying funds: IA Clarington Strategic Corporate Bond Fund (2.5%), IA Clarington Strategic Income Fund (47.5%), IA Clarington Loomis Global Allocation Fund (47.5%) and IA Clarington Loomis Global Multisector Bond Fund (2.5%).

During the fourth quarter of 2024, top contributors to the Fund's performance included its exposures to IA Clarington Strategic Income Fund and IA Clarington Loomis Global Allocation Fund, as they produced the highest absolute returns and made up over 90% of the portfolio. IA Clarington Loomis Global Multisector Bond Fund was the only detractor from performance, but its impact on the overall Fund's return was modest given its low weighting within the Fund.

IA Clarington Strategic Income Fund experienced heightened market volatility as economic leadership shifted from the U.S. Federal Reserve to the new administration. It focused on sectors with reasonable valuations and defensible business models, while avoiding highly cyclical businesses with elevated growth expectations. Within fixed income, allocations favoured high-yield bonds aligned with economic growth, balanced by investment-grade bonds to hedge risks. The underlying fund maintained a barbell strategy, balancing high-quality defensive businesses with economically sensitive sectors to optimize growth and mitigate risks. Positive returns came from the financials and consumer staples sectors, as well as fixed-income security selection, with standout contributors including Air Canada and AtkinsRéalis Group Inc. Relatively lower sector allocation to energy and exposure to interest-rate-sensitive equity sectors detracted from relative performance. Detractors included exposure to The Toronto-Dominion Bank and Canadian Pacific Kansas City Ltd.

IA Clarington Loomis Global Allocation Fund produced an absolute positive return during the quarter. Within the underlying fund's equity sleeve, the three largest contributors to performance were Amazon.com Inc., Nvidia Inc. and Alphabet Inc., while the largest detractors were Atlas Copco AB, Nomura Research Institute Ltd. and Mettler-Toledo International Inc. Within the fixed-income sleeve, credit positioning contributed strongly to performance over the period. Conversely, yield curve and duration positioning were the largest detractors from performance. Overweight duration positioning in the U.S. dollar-pay market, along with underweight duration positioning in the Chinese renminbi-pay market, also detracted.

IA Clarington Loomis Global Multisector Bond Fund produced a slight negative absolute return during the period. Exposure to non-U.S.-dollar issues was a slight detractor from performance as a result of Australian and South African-denominated sovereign bonds. Security selection and yield curve positioning contributed to the underlying fund's performance. On average, overall portfolio duration was shorter on a relative basis, which helped performance as yields pushed higher during the period.

By design, the Fund has a static target allocation among its underlying funds, which we rebalance monthly. The Fund seeks to provide a combination of income and capital appreciation by investing primarily in equity and fixed-income securities from around the world, either directly or indirectly through investments in other mutual funds.

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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