

IA Clarington Monthly Income Balanced Fund

Manager commentary – Q4 2025

During the fourth quarter, the U.S. Federal Reserve continued its cycle of interest rate cuts that began at the end of the third quarter, despite a government shutdown that paused the publication of economic data for several weeks, making the Fed's job more complex.

This government shutdown lasted 43 days, making it the longest in U.S. history. It likely caused an economic slowdown, although this should be short-lived. The agreement ending the shutdown did not resolve the main sticking point—the end of a subsidy program for medical insurance costs—setting the stage for another confrontation in early 2026.

Although macroeconomic analysis was made more difficult by the lack of data for several weeks, it is clear that the labor market is weakening. The unemployment rate reached 4.6% in November, as many companies paused their hiring plans. Despite this, layoffs across the economy remain modest, limiting the extent of the damage. Some indicators even show stabilization and a rebound toward the end of the quarter.

Beyond the labor market and the government shutdown, economic growth remains strong in the United States, supported by household consumption and investments in artificial intelligence.

Inflation is under control but remains above its target, at 2.7% year-over-year in November. Tariffs continue to exert upward pressure on prices, but the risks of an overheating economy are contained for now.

The Fed is grappling with a situation where risks to both inflation and unemployment are rising, putting its dual mandate at odds. The Board of Governors is placing more emphasis on the labor market, resulting in three consecutive rate cuts in September, October, and December. Political interference from the Trump administration continues, but the institution appears to be resisting, making an excessive monetary stimulus unlikely.

In Canada, the labor market regained strength after a significant weakening during the summer. Even though there is still no trade agreement between Canada and the Trump administration, existing tariffs remain relatively low, and the trade relationship has stabilized, allowing business confidence to improve. After a rebound in the third quarter, economic growth is expected to be roughly flat in the fourth quarter, notably due to population growth being at a standstill.

Inflation is stable but near the upper end of the 1–3% range. The Bank of Canada ended its easing cycle in October, lowering the policy rate to 2.25%. It is expected to remain on the sidelines for some time.

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In early November, the federal budget was tabled, relying on an increased deficit to finance public investments, particularly to boost export capacity outside the United States. The aim is also to crowd-in private investment, especially in nationally significant projects. The short-term impact of the budget should be limited, but positive effects may emerge starting in 2027 or 2028. The fiscal situation is deteriorating, putting upward pressure on interest rates.

In Europe, the economy continues its gradual recovery, with industrial production stabilizing, unemployment remaining low, and the services sector expanding. Inflation is stable near 2%, which is keeping the European Central Bank on the sidelines in the medium term.

From a geopolitical perspective, ceasefire negotiations in Ukraine are ongoing, but a deal still appears distant. The United States is increasingly pressuring the Nicolás Maduro regime in Venezuela, with a significant concentration of military forces in the Caribbean.

We maintain a positive view on equities despite elevated valuations. The macroeconomic backdrop remains supportive, with monetary policy broadly easing and earnings growth remaining strong. We anticipate a potential broadening of market leadership beyond mega-cap tech, favouring Canada as well as Asian and emerging markets where valuations are compelling, and earnings momentum is improving.

Our view on government bonds remains nuanced. Higher yields offer improved return potential and good hedging characteristics, but the macroeconomic environment, which is marked by stronger growth, fiscal dominance and significant issuance, continues to challenge duration exposure. In Canada, expectations for a possible Bank of Canada rate hike by late 2026 reinforce our cautious stance.

We continue to favour the Canadian dollar over the U.S. dollar. The Canadian dollar stands to benefit from Canada's relatively constructive growth outlook and commodity exposure, while the U.S. dollar faces headwinds from Fed easing and structural deficits.

We hold a constructive view on commodities, particularly base metals which should benefit from cyclical growth improvement and structural demand drivers tied to electrification, AI infrastructure build-out, and the energy transition. Gold remains strategically attractive as a hedge against inflation and geopolitical uncertainty.

The Fund's outperformance was partially driven by positive added value coming from underweighting Canadian low volatility and overweighting EAFE ("Europe, Australasia, and the Far East") Value equity style tilts through its mix of managers. The slight overweight in emerging market equities and long gold positions were also beneficial, while tactical overweight on Japanese Yen versus U.S. dollar was a detractor.

Underlying managers slightly underperformed their relevant market indices overall.

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Tactically, our main active positions are within currencies and commodities, with short positions on the U.S. dollar against Canadian dollar, Euro and Japanese Yen and long positions on a basket of commodities. We also maintain a slight relative overweight positioning in emerging market equities.

Fund and benchmark performance, as at December 31, 2025	1 year	3 years	5 years	10 years
IA Clarington Monthly Income Balanced Fund – Series T6	14.4%	12.7%	8.3%	6.4%
40% FTSE Canada Universe Bond Index, 60% S&P/TSX Composite Index	19.3%	14.5%	9.4%	8.4%

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.

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 40% FTSE Canada Universe Bond Index and 60% S&P/TSX Composite Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. 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 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 Fund's fixed income component may have different sector exposure, credit quality and interest rate sensitivity than the benchmark. The Fund may have exposure to equities and bonds domiciled both in Canada and outside of Canada while the benchmark only has exposure to equities and bonds domiciled in Canada. The Fund may have currency risk exposure while the benchmark has none. The Fund may hold cash while the benchmark does not. Overall, the Fund's bond and equity

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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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