IA Clarington Monthly Income Balanced Fund

Manager Commentary – Q2 2026

Similar to recent quarters, the second quarter of 2026 was dominated by the conflict in Iran, as fighting continued to begin the quarter. A ceasefire was announced in early April, followed by several weeks of negotiations and culminating in a peace agreement by mid-June.

The Strait of Hormuz remained largely closed for most of the quarter, leading to a significant drawdown in global oil inventories. However, oil prices began to decline soon after the ceasefire announcement and dropped sharply once the peace deal was confirmed, moving from around US$100 on April 1 to US$70 by June 30. Shipping through the Strait gradually resumed toward the end of June.

Rising energy prices pushed inflation higher. In the U.S., headline CPI inflation exceeded 4%, while core inflation (which excludes energy) remained more contained, at around 3%. The sharp decline in oil prices in June is expected to help ease inflation in the coming months, though inflation is likely to remain above target.

At the same time, the U.S. economy remains resilient, supported by expansionary fiscal policy and strong investment in artificial intelligence (AI). The labour market has strengthened again, with job creation rising and unemployment remaining stable.

Against this backdrop, the new Chair of the U.S. Federal Reserve (the Fed), Kevin Warsh, has taken office. With inflation still elevated and policymakers increasingly focused on inflation risks, markets now expect one to two additional interest-rate hikes by year-end.

Over the quarter, this resulted in stable long-term interest rates and rising short-term rates. In other words, the yield curve flattened, reflecting expectations of tighter monetary policy alongside reduced fears of a sustained inflation spiral. Ten-year yields held near 4.4%, while two-year yields rose from 3.8% to 4.1%.

In Canada, GDP declined in the first quarter, but available indicators suggest a rebound in the second quarter. Meanwhile, the labour market has stabilized, with unemployment between 6.5% and 7%. Slower population growth, due to changes in immigration policy, is acting as a headwind for economic growth. Overall, the Canadian economy is slowing, but the risk of recession remains low.

Inflation in Canada has also increased, driven by higher energy and food prices, although core inflation remains well controlled. Inflation is expected to hover around 3% in the coming months. In this environment, the Bank of Canada is likely to keep interest rates unchanged in 2026, with potential rate hikes in 2027 if growth strengthens. Interest rates edged down slightly over the quarter, reflecting weaker growth and lower inflation risks. As a result, markets have revised down their expectations for the policy rate.

Several central banks raised interest rates during the quarter. Notably, the European Central Bank, the Bank of Japan and the Reserve Bank of Australia each increased their policy rates by 25 basis points. While modest so far, this tightening cycle could gradually weigh on global economic growth over the medium term.

Over the second quarter of 2026, the S&P 500 Index gained 17.1% in Canadian-dollar terms, compared to 7.0% for the S&P/TSX Composite Index. European markets also rebounded (Stoxx 50 Index: +15.8% in Canadian dollars). However, the NASDAQ 100 Index (+29.7% in Canadian dollars) and emerging markets (MSCI Emerging Markets Index: +26.2% in Canadian dollars) led the rally, driven largely by AI-related momentum.

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Globally, interest rates moved slightly higher, while corporate bond spreads tightened and remain tight from a historical perspective, leading to a modest positive return for the Bloomberg Global Aggregate Index (+2.6% in Canadian dollar). The Bloomberg U.S. Corporate High Yield Index also increased (+4.5% in Canadian dollars), along with the Bloomberg U.S. Corporate Bond Index (+3.4% in Canadian dollars).

The U.S. dollar strengthened significantly toward the end of the quarter, reflecting changing expectations for Fed policy, with markets now pricing in interest-rate hikes. Overall, the U.S. dollar appreciated by 2.4% against the Canadian dollar, as the interest-rate differential widened. Relative to its U.S. counterpart, the Canadian dollar has fallen to its lowest level since early 2025.

We maintain a positive outlook on equities, although the balance of risks has become more even. The backdrop for equities remains essentially unchanged. The asset class continues to be driven by earnings, and those earnings have surprised persistently to the upside, particularly in the U.S., where profitability has been exceptionally strong and forward expectations continue to be revised higher. Capital expenditures on AI continue to underpin the asset class and reinforce the positive backdrop.

That said, higher expectations are already reflected in prices, and speculative activity has increased at the margin. In that context, the outlook is less about sharp regional divergence and more about a broad, still-positive equity backdrop where upside is likely to be more selective than earlier in the cycle.

For government bonds, yields are more attractive than in prior years, but the broader macroeconomic regime remains challenging. Inflation has proven persistent, while elevated fiscal deficits and rising sovereign issuance continue to put upward pressure on term premia. This limits the scope for a sustained bond rally and reduces the reliability of bonds as a hedge against risk assets in an environment shaped by inflation shocks and geopolitical risk.

In currencies, the “sell America” trade that hurt the U.S. dollar in 2025 appears to have paused amid exceptional U.S. corporate earnings performance. Meanwhile, several European currencies are considered less attractive, given lower domestic interest rates and, in the case of the British pound in particular, an interaction between fiscal dynamics and reliance on foreign capital that leaves the currency sensitive to shifts in global rates and term premia.

The Fund slightly outperformed relative to its benchmark for the period.

Tactically, the Fund’s active positions are within currencies, as we increased our long positions in the Canadian dollar using the euro as a funding currency. The Fund also maintains a small strategic overweight position in global equities. The Fund benefited from a long position in emerging markets and U.S. equities, and short position in Europe, Australasia, and the Far East (EAFE) equities.

We also continue to reflect our macroeconomic views through the Fund’s exposure to IA Clarington Global Macro Advantage Fund.

Fund and benchmark performance, as at June 30, 2026	Q2 2026	1-year	3-year	5-year	10-year

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IA Clarington Monthly Income Balanced Fund – Series F	7.0%	18.9%	15.8%	9.3%	8.1%
40% FTSE Canada Universe Bond Index, 60% S&P/TSX Composite Index	5.0%	20.4%	15.6%	9.2%	8.4%

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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. 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, please 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 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 for more than one year are historical annual compounded total returns while returns for one year or less are cumulative figures and are not annualized.

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