IA Clarington Loomis Global Multisector Bond Fund

Manager commentary – Q2 2025

The second quarter of 2025 saw a significant increase in financial market volatility, marked by an escalation in the global trade war, uncertainty in U.S. fiscal policy, and intensifying geopolitical risk in the Middle East. Risk assets sold off aggressively to start the quarter as President Donald Trump announced widespread reciprocal tariffs on April 2 (referred to as “Liberation Day”), disrupting global trade and triggering uncertainty in growth and inflation expectations. As yields surged and liquidity thinned, the bond market flashed warning signs. A weak 3-year note auction set the tone, and with 10- and 30-year auctions looming, Trump took the off-ramp and paused tariffs for 90 days, which calmed investor concerns in the short term. Investors shifted their focus towards uncertainty around U.S. fiscal policy in mid-May, as Moody's downgraded the U.S. government's credit rating from Aaa to Aa1 and further highlighted long-term deficit concerns. This was quickly followed by the passing of the One Big Beautiful Bill Act by the House of Representatives, which has the potential to further exacerbate the fiscal gap. Lastly, in mid-June, geopolitical risk rose as Israel launched surprise attacks on key military and nuclear facilities in Iran. The U.S. joined shortly thereafter to assist in striking Iranian nuclear sites, but a ceasefire was announced shortly thereafter on June 24. Despite the myriad of events, the 10-year U.S. Treasury was stable quarter-over-quarter, moving from 4.21% to 4.24%, and, as expected, the U.S. Federal Reserve (Fed) remained on hold during their May and June meetings. Investment-grade and high-yield spreads initially widened, but bounced back and ended the quarter near their pre-sell-off levels.

In the second quarter, IA Clarington Loomis Global Multisector Bond Fund Series A returned 1.50%, while the Bloomberg U.S. Aggregate Bond Index (CAD Hedged) returned 0.74%. The Fund outperformed its benchmark primarily owing to security selection and yield curve positioning. An allocation to non-U.S. dollar issues was positive, with excess returns generated by South African rand, Mexican peso, and euro-denominated sovereigns. Positive performance in securitized credit came from exposure to ABS (car loans) and CMBS. Our exposure to convertibles was beneficial, led by select high-conviction names in the aerospace/defense and cruise line sectors. Within high-yield corporate credit, selection was a contributor to performance, with names in the energy and communications sectors providing positive excess returns.

Going forward, we believe the U.S. economy will remain in the late-cycle phase of the credit cycle, supported by the recent backtrack in tariff policy, a healthy mid-to-high income consumer, and stable corporate fundamentals. Our base case calls for trend/below-trend U.S. growth, and we do not anticipate a recession at this time. The risk of global trade seizing up and causing widespread recession appears to be diminished by tariff pause extensions, temporary truces and the potential for trade deals. In Europe, the shift toward more expansionary fiscal policy should raise long-term trend growth rates for those economies through large investments in the economy. This could offset any negative impact with a potential change in the U.S. trade relationship, the effects of which will be difficult to predict. In China, the government will likely continue to bolster domestic demand while it seeks to play defense in the face of tariff pressures. However, we believe uncertainty remains regarding the scale and effectiveness of such measures. A substantial trade deal could present an upside surprise.

U.S. inflation has been sticky and continues to print above the Fed's target. The tariff backtrack in the second quarter has alleviated some of the short-term concerns of inflationary pressures, but we believe risks to unstable inflation remain. We also believe prices may experience a temporary spike in the coming months as companies pass through tariff-related cost increases. In addition, the risk of a re-escalation in the global trade war remains as the 90-day pause on higher tariff rates ends on July 9. On a long-term basis, we have been suggesting that inflation may remain unstable and potentially experience higher lows in future cycles, owing to structural factors like the fiscal deficit, trade protectionism, deglobalization, decarbonization and aging demographics. From a growth perspective, labour market health and ongoing job creation should keep consumer spending on firm footing, in our view. Absent a significant shock to the economy, we believe growth should remain positive, which puts the Fed in a difficult position – should they focus on growth or inflation? In our view, the Fed may be comfortable with inflation hovering above their 2% target, explaining it away as transitory (again), in order to prevent the labour market from weakening too much. The Fed seems to be in a "wait-and-see" mode and will likely continue to be data dependent, focusing on developments in the trade war, the budget and events in the Middle East.

We believe a key risk is the structural economic and demographic factors that are weighing on the U.S. fiscal deficit. Large non-discretionary spending, mostly related to entitlements and defense, have led to a deficit that is structural rather than counter-cyclical. Debt servicing costs have also risen significantly, as interest rates have increased and the overall debt burden has expanded. Currently, the fiscal deficit is unsustainable and has the potential to stimulate inflation, which in turn could raise borrowing costs across the economy. The One Big Beautiful Bill Act extends most of Trump's tax provisions, raises the debt ceiling and potentially increases the annual deficit over the next decade. Unless there is significantly higher growth (which we believe is unlikely), expenditures are reduced or another large source of revenue materializes (tariffs), we do not see a near-term stabilization or contraction in the deficit. U.S. budget negotiations are ongoing, but fiscal rectitude does not seem to be attainable – and this may reflect the reality that the mid-term elections are approaching quickly. Our structural view of higher interest rates remains intact. We believe Treasury supply will continue to be a topic of heavy discussion, which could increase interest-rate volatility and put a floor under long-term Treasury yields. We believe the long end of the curve, at this point, is not adequately pricing in potential risks. We believe long-term fair value for the 10-year U.S. Treasury is approximately 4.50-4.75%, based on a 1.75-2.00% real rate and 2.75% breakeven rate; however, Trump's policies could push the fair value target slightly higher.

Our investment process lends itself to constantly reassessing value through our risk premium framework. Our Credit Health Index (CHIN) within investment-grade and high-yield corporate credit suggests defaults/losses will be in line with historical averages for this part of the cycle. Geopolitical and fiscal uncertainties have provided pockets of spread widening, but risk premiums remain below the lower end of our value range. We believe that credit health remains stable as corporate fundamentals, technicals and earnings growth continue to be positive, even as the economy has potentially started to downshift. It is difficult to see any real signs of credit deterioration and, in our opinion, corporate balance sheets can weather potential volatility in the macroeconomic backdrop.

We believe that long-term value has returned to fixed-income markets with a combination of discount-to-par and favourable yields. As investors sit on record levels of cash, we expect strong demand will likely support bond markets. The fiscal gap remains a long-term threat to yield stability, and investors will need to be compensated for a potential rise in yields at the long end. Fortunately, bondholders can manage through this uncertainty. In this environment, we believe that reinvestment rate risk is on the side of the fixed-income investor, but the challenge is getting to progressively higher yield while maintaining or growing principal. Given our expectation for a relatively benign loss environment, we believe investors should also consider moderately leaning into credit risk for any potential extra carry pick-up. We are mindful of the risks going forward, such as a growing U.S. deficit, trade protectionism (tariffs) and geopolitical risk. Each of these risks could further elevate market volatility and create additional buying opportunities in credit, interest rates and currencies, for which we would consider redeploying reserves faster. In today's environment, we believe bond investors should maintain flexibility with regards to interest-rate and credit risk, considering the risk/reward of the intermediate part of the curve against the long-term risks associated with long-end curve exposures, while also being selective in potential opportunities in investment-grade credit, high-yield credit, bank loans and securitized credit, in our opinion.

Fund and benchmark performance, as at June 30, 2025	1 year	3 year	Since inception (Jul. 2020)
IA Clarington Loomis Global Multisector Bond Fund – Series A	7.3%	3.8%	-0.1%
Bloomberg U.S. Aggregate Bond Index (CAD Hedged)[1]	4.5%	1.5%	-1.6%

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.

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[1]Source: Bloomberg L.P. 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 performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted indices. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The Fund's market capitalization, geographic, sector and credit quality exposure and interest rate sensitivity may differ from that of the benchmark. The Fund's currency risk exposure may be different from the benchmark. 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.

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 while returns for one year or less are cumulative figures and are not annualized.

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