

IA Wealth Core Bond Pool

Manager commentary – Q1 2025

As 2024 progressed, the world appeared to be slowly finding the right balance between encouraging growth and controlling inflation. Central banks throughout the world made concerted efforts to manage the cost of living and inflation challenges facing individuals and businesses.

The most recent quarter was dominated by U.S. President Trump's surprisingly aggressive stance on tariffs, particularly towards Canada. By the end of the period, Trump had implemented 25% tariffs on steel, aluminum and cars, with more tariff announcements expected in April.

U.S. growth was expected to be somewhat flat in the first quarter, as consumer and business confidence was increasingly shaken by political uncertainty. The U.S. Federal Reserve held its target interest rate steady at 4.50%.

In Canada, the economic recovery was going well, with interest-rate cuts taking the policy interest rate down to 2.75%. However, uncertainty related to trade policy caused household and business confidence to plummet, slowing the economy.

For the 12-month period ending March 31, 2025, the Fund's underweight exposure to federal bonds contributed to performance, as the federal segment underperformed the overall benchmark owing to declining interest rates and a steepening yield curve (long-term bonds began offering higher yields than short-term bonds). The Fund's overweight exposure to corporate bonds also contributed to performance as the corporate segment outperformed the overall benchmark. Individual contributors included the Fund's allocations in the provincial and federal bond segments.

The Fund's security selection in provincial bonds detracted from performance overall, as did its security selection in municipal bonds.

During the first quarter of 2025, several significant transactions were made to optimize the Fund's positioning. Provincial bonds were purchased owing to attractive spreads (the yield difference between two types of fixed-income instruments) at the high end of their range. Additionally, 10-year U.S. Treasury bonds were bought against 10-year Government of Canada bonds, as the Canadian bonds were considered to be relatively expensive. The Fund's interest-rate sensitivity (the degree to which the price of a security fluctuates with interest rate fluctuations) was increased relative to the benchmark, and futures on U.S. Treasury bonds and Government of Canada bonds were purchased.

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The fund manager's view of the bond market is positive for 2025. While bond yields (the interest earned on a fixed-income security) are not as high as they were at the beginning of the year, the fund manager considers the risk-return profile of this asset class to be very attractive. The fund manager saw the asset class acting as a hedge during the recent bout of volatility that was induced by decisions coming out of the White House.

The fund manager expects that global economic growth will continue to slow in the coming quarters, prompting central banks to keep lowering their overnight interest rates. Bond-yield volatility is likely to continue in 2025, giving an advantage to bond portfolios that are actively managed.

Fund and benchmark performance as at March 31, 2025	1 year	3 year	5 year	10 year
IA Wealth Core Bond Pool – Series A	7.0%	1.9%	0.5%	0.8%
FTSE Canada Universe Bond Index	7.7%	2.5%	0.9%	1.8%

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.

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 Fund's benchmark is the FTSE Canada Universe Bond Index, which 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 geographic, sector and credit quality exposure may differ from that of 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.

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