

IA Wealth Core Bond Pool

Manager commentary – Q3 2025

The end of the period was marked by easing trade tensions and overall global economic resilience. However, concerns about U.S. inflation and a loss of independence and credibility at the U.S. Federal Reserve (the Fed) cast a shadow over an otherwise positive picture.

Trade agreements were ratified between the U.S. and key partners like the European Union, Japan and South Korea. This reduced uncertainty and made the business environment more predictable. That said, tariffs accounted for 10% of total imports as of August. This proportion was expected to rise as companies rebuild inventories, so the effects of these protectionist policies could be felt in the medium to long term.

The U.S. economy continued to grow and consumption rebounded, driven by wealthier households and a positive wealth effect from strong financial market performance. Non-residential investment also remained robust, particularly in artificial intelligence.

The U.S. labour market was a weak spot, with job creation slowing significantly over the summer, though remaining positive. Layoffs were limited, but hiring was also subdued.

U.S. inflation accelerated slightly, hovering around 3% year-over-year. The impact of tariffs began to affect consumer prices, although the full effect may take time to materialize.

In this environment, the Fed lowered its benchmark interest rate by 25 basis points (bps), with further cuts expected by year-end.

After contracting in the second quarter, the Canadian economy showed mediocre growth in the third quarter. Consumer spending remained resilient, but exports and investments were down notably. The labour market also weakened. Headline inflation was slightly below the 2% target, but core inflation stagnated between 2% and 3%. Overall, this allowed the Bank of Canada (BoC) to cut its benchmark interest rate by 25 basis points, to 2.50%, in September.

The Carney government unveiled its initial list of nation-building projects, which included projects already well advanced in their approval process. Nevertheless, this could send a positive signal to local and global investors. The government was expected to announce further projects later this year. The main investment themes were export diversification, energy dominance and critical minerals. Fiscal spending was expected to increase significantly from higher defense spending, raising concerns about fiscal sustainability.

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The European economy continued to grow modestly in the third quarter, with inflation being contained around 2%. The European Central Bank held its benchmark interest rate steady, and markets did not expect further cuts. Fiscal risks were emerging in France and the U.K., as both countries needed to consolidate their fiscal positions but faced political opposition.

For the six-month period ending September 30, 2025, the Fund's overweight position in credit contributed to performance as investors continued to favour riskier assets, both through allocation and selection. Individual contributors included the Fund's exposure to industries such as subordinated bank debt, autos, insurance and telecommunications. Exposure to an exchange-traded fund (ETF) tracking the U.S. high-yield bond market also contributed.

The Fund's positioning in the long end of the yield curve detracted from performance as the curve steepened (long-term bonds were offering higher yields than short-term bonds). The Fund's underweight position in provincial credit also detracted.

New positions included new 10-year Treasury inflation protected securities. These were purchased to account for the Fed being forced to cut interest rates in a strong economy, which would likely be inflationary.

Decreased positions included the Fund's interest-rate sensitivity relative to its benchmark, as the fund manager disagrees with the market on how many interest-rate cuts to expect from the Fed.

Eliminated positions included long-term U.S. Treasury futures as the market could demand higher yields to compensate for a growing U.S. deficit.

While many investors may be hoping for significant interest-rate cuts from the Fed, the fund manager believes that might be somewhat optimistic. That said, the fund manager still expects bonds to perform well for the rest of 2025. The economic impact of the U.S. administration's policies is starting to show, especially in the job market. If economic data continues to weaken, the Fed will likely lower interest rates. Meanwhile, Canada's federal government is planning a budget in November that's expected to boost spending. This could mean that the BoC won't need to cut interest rates as aggressively as the Fed.

The fund manager has adopted a cautious approach to interest-rate sensitivity, holding fewer long-term bonds, especially in the U.S. market. Instead, the fund manager is focused on credit, including corporate bonds, with a preference for shorter-term investment-grade options. The Fund holds a small position in high-yield bonds through an ETF. The Fund also has a modest allocation to provincial bonds, particularly those offering higher yields and longer maturities, as well as some non-rated bonds issued by Quebec municipalities.

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Looking ahead, bond yields are likely to remain somewhat volatile in the fourth quarter, which gives the fund manager the flexibility to adjust the Fund's interest-rate exposure as needed.

Fund and benchmark performance as at September 30, 2025	1 year	3 year	5 year	10 year
IA Wealth Core Bond Pool – Series A	2.1%	4.1%	-0.7%	1.1%
FTSE Canada Universe Bond Index	2.9%	4.7%	-0.2%	2.0%

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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