

IA Wealth Moderate Portfolio

Manager commentary – Q2 2025

The second quarter kicked off at full speed with the U.S. administration's "Liberation Day" and the implementation of reciprocal tariffs. These were later temporarily suspended, which contributed to an improvement in the global economic climate. A bilateral agreement was reached with the U.K., and discussions with China led to a postponement of new tariff impositions.

Despite this easing, risks remain high. Tariffs on steel and aluminum were doubled, and the end of the moratorium on reciprocal tariffs is expected in July. Legal uncertainty regarding the legitimacy of current measures adds another layer of complexity, with little clarity on short-term policy options.

The "One Big Beautiful Bill" continues its course in Congress, bringing both spending and tax cuts. When adding the impact of tariffs on revenues, the net effect on the deficit is expected to be neutral, keeping it very high compared to the historical average. The long-term fiscal trajectory of the U.S. remains unsustainable.

The U.S. economy has shown remarkable resilience in the face of declining confidence and rising uncertainty. The phenomenon of "tariff front running"—importers accelerating shipments in anticipation of higher tariffs—has helped cushion the blow. Easing trade tensions has also supported the perception that disruptions are temporary, stabilizing consumption. Companies have not initiated significant layoffs, and investment in intelligence continues at a rapid pace, supporting growth.

Despite this resilience, some leading indicators point to a slowdown, especially in the labour market, where job creation is slowing and unemployment insurance claims are ticking up slightly. However, these signals are not yet alarming.

Inflation remains above the U.S. Federal Reserve's (the Fed) target, but has shown signs of moderating over the quarter. The impact of tariffs has not yet been fully passed through to consumer prices, which could change if the planned increases in July are implemented. The Fed remains in a wait-and-see mode, balancing growth and inflation risks.

In Canada, the economy is showing signs of weakening, largely owing to uncertainty surrounding U.S. tariffs. That said, there are emerging signs of a possible trade agreement with the U.S., which could significantly reduce current tariffs and, thus, limit the risk of recession. Inflation remains persistent, preventing the Bank of Canada (the BoC) from further easing its monetary policy. The new federal government, elected with a strong economic mandate, plans to launch major infrastructure projects,

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notably in energy, and to rapidly increase defense spending. These measures should boost economic activity, but raise questions about fiscal sustainability.

In Europe, the economy is slowly regaining strength, supported by the European Central Bank's still-accommodative monetary policy. However, growth remains modest, held back by persistent weak domestic demand and ongoing geopolitical uncertainties.

NATO countries have agreed to increase defense spending to 5% of GDP, up from the previous target of 2%. This should create upward pressure on fiscal spending and sovereign interest rates.

Markets experienced significant volatility early in the quarter in response to trade tensions. However, gradual easing allowed the S&P 500 Index to regain lost ground, up 12% on the quarter. This rebound was supported by technology giants, which continue to benefit from the tailwind of artificial intelligence.

In the second quarter, European and Canadian markets no longer outperformed U.S. markets. For example, the performance of the EURO STOXX 50 was flat on the quarter, while the S&P/TSX Composite Index was up by 8%.

Interest rates in the U.S. remained largely stable over the period, with 10-year rates ending the quarter at around 4.25%, not too far from their level at the beginning of the quarter. This, however, masks an increase to over 4.50% in May as investors started to worry about fiscal sustainability. In Canada, 10-year rates increased throughout the quarter, from around 3.0% to 3.3%, as the growth outlook brightened along with expectations of higher fiscal spending.

We favour a slight overweight position in equities. Despite persistent macroeconomic and trade policy uncertainty, as well as elevated geopolitical noise, the global earnings backdrop remains resilient. While we continue to see upside in equities broadly (including in the U.S. and Canada), we are tilting away from North America toward Asia, Europe and emerging markets. Stretched valuations, policy uncertainty and a weakening U.S. dollar are leading us to consider opportunities internationally.

We favour an underweight position in fixed income, as the macroeconomic and policy backdrops continue to exert upward pressure on yields, particularly at the long end of the curve. While bonds still offer diversification benefits and a potential hedge against equity volatility, we believe the risk-reward profile remains more challenged in the current environment.

In currencies, we favour an overweight position in the Japanese yen, which we view as one of the most compelling opportunities in the currency space today. Structural and cyclical factors are aligning in its favour, including the potential repatriation of foreign assets by Japanese investors and a steepening

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domestic yield curve. We also favour an overweight position in the Canadian dollar. Despite tariff concerns, Canada's fundamentals appear to remain stable. Upside surprises in the 2026 economic outlook could also support the loonie, especially if the BoC adopts a more "hawkish" stance regarding its monetary policy. Lastly, we believe the euro will continue to benefit from broader weakness in the U.S. dollar.

The Fund's underperformance over the period was mainly driven by some equity managers who underperformed their market indices, especially Manulife Global Equity Class, IA Clarington Loomis Global Equity Opportunities Fund, IA Clarington Global Dividend Fund and Fidelity Canadian Disciplined Equity Fund. IA Clarington Global Macro Advantage Fund also underperformed, which detracted from performance. On the positive side, our discretionary tactical trades within foreign exchange contributed to performance, which counterbalanced a portion of the effects from negative manager selection.

Tactically, our main active positions are within currencies, with short positions on the U.S. dollar against the Canadian dollar, euro and Japanese yen. We also maintain a slight overweight equity positioning compared to fixed income.

Fund and benchmark performance, as at June 30, 2025	1-year	3-year	5-year	Since inception (Apr. 2016)
IA Wealth Moderate Portfolio – Series B	7.3%	6.0%	2.8%	2.8%
5% S&P 500 Index (CAD), 12% S&P/TSX Composite Index, 15% ICE BofA US High Yield Constrained Index (CAD Hedged), 18% MSCI World Index^ (CAD), 50% FTSE Canada Universe Bond Index	11.5%	10.3%	5.9%	6.2%

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.

[^]Source: MSCI Inc. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI.

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The Fund's strategy is to invest in other investment funds. 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 5% S&P 500 Index (CAD), 12% S&P/TSX Composite Index, 15% ICE BofA US High Yield Constrained Index (CAD Hedged), 18% MSCI World Index^ (CAD) and 50% FTSE Canada Universe Bond Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The MSCI World Index (CAD) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index (CAD) consists of 23 developed market country indices. 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 S&P 500 Index (CAD) includes 500 leading companies in leading industries of the U.S. economy and is widely regarded as the best single gauge of the U.S. equities market. 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 ICE BofA US High Yield Constrained Index (CAD Hedged) tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The Fund's geographic, sector and credit quality exposure may differ from that of the benchmark. The Fund's fixed income component can invest in both investment grade and high yield bonds while the benchmark has exposure only to investment grade bonds. The Fund may have different currency risk exposure than the benchmark. 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 are historical annual compounded total returns.

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