

IA Clarington Money Market Fund

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 “One Big Beautiful Bill” (OBBB) was ratified during the summer. Its net effect will be to stimulate the U.S. economy in the short term, partially offsetting the negative effects of tariffs. However, the combined effect of tariff revenues and the OBBB does not materially change the U.S. fiscal trajectory, which remains unsustainable in the 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 bps, 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. The government was expected to announce further projects later this year. The main investment themes were export diversification, energy dominance and

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critical minerals. Fiscal spending was expected to increase significantly from higher defense spending, raising concerns about fiscal sustainability.

The Fund has a clear focus on capital preservation and invests primarily in money market instruments that mature in less than 365 days. Throughout the period, the Fund was invested essentially in Treasury bills. The fund manager continues to focus on high-quality issuers and maintaining a high degree of liquidity in the Fund. The fund manager does not take any unnecessary risk when selecting securities as the Fund's main investment objective is capital preservation and liquidity.

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 the year. The economic impact of the U.S. administration's policies is starting to show, especially in the job market. Uncertainty remains high, partly owing to the current U.S. president's unpredictable decisions and push for more executive control. 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.

For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment advisor.

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IA Clarington Money Market Fund

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