INVESTMENT FUNDS

BOND

MONTHLY COMMENTARY

August 31, 2020

What are the key active weights within the Fund and why?

Overweight corporate bonds: we own close to 42% of our portfolio in that asset class, which is 15% more than its benchmark. The quest for yield in the context of very low interest rates is supportive for corporate bonds. Also, since last spring, the Bank of Canada (BoC) promised to buy up to CA$10B until April 2021 to support that asset class. The Federal Reserve (FED) also created new programs to make sure that the U.S. corporate bond market is functioning smoothly. All in all, a lot of support has been given to that market so far in 2020 and this should continue.

Overweight municipal bonds: 6% of our portfolio is invested in it while it represents 2.12% of our benchmark. We especially like the non-rated Quebec municipal bonds since they bear a short duration (usually less than five years), making them less sensitive to interest rates movements. Also, they provide a very good carry when compared to Government of Canada and Quebec bonds of the same maturity.

Share one or two recent investments or investment themes

We reduced the duration of our portfolio recently because we expect we are going to see a lot of bonds being issued in the coming months. We've noticed that the market has had some problems digesting all the new issue supply that came recently at very low interest rates levels, and we expect that those problems could persist in the fall. Governments across the globe are creating huge deficits to combat the impacts of the current health crisis and to promptly restart their economies. These deficits will need to be financed with new debt that may require higher yields to be smoothly absorbed by the market. Also, we are seeing worldwide efforts to develop a COVID-19 vaccine. Positive news on that front will lift a major source of uncertainty and could be negative for the bond market.

We reduced the risk associated with our corporate bond exposure by selling some longer duration bonds against shorter duration tenors. Corporate bond spreads tightened dramatically since the FED and the BoC decided last spring to buy corporate securities directly in the market. From now on, we think that it will be more difficult for that segment to perform as well as it did in the last four months. In the end, we keep our overweight corporate bonds but with a shorter duration.

What is the current cash level and why? How are you intending to put the cash position to work?

We have close to 5% cash in our portfolio. We own a big amount of cash since we sold longer-term bonds to shorten the duration of the portfolio. As always, we stay nimble in our duration management. This means that our cash level may vary a lot over time.

Fund positioning and outlook

We continue to believe that the key rate will not be lowered into negative territory in Canada or in the United States. However, we believe that the short-term portion of the yield curve will be anchored by central banks. That, combined with the increasing amount of new issues in the long-term portion of the yield curve resulting from the increase in the indebtedness of the countries, make us foresee a continuation of the steepening of the yield curves in the coming months.

Due to corporate bond buying programs by North American central banks and investors' search for yield in a low interest rate universe, we remain constructive on corporate credit spreads even though we think that most of the overperformance is already garnered. In addition, true to our habit, we remain agile in managing our portfolio's duration to take advantage of market opportunities.

In conclusion, heavy issuance combined with positive news on the COVID-19 front should push yields higher during the fall. But, if yields increase too fast, central bankers will be watching and may intervene to slow the pace. So, yields will be higher but will stay low on a historical basis. Remember that central banks will be involved in maintaining the lower part of the curve anchored. They should tolerate higher interest rates but to a certain level. Recently the FED announced as a goal, an average inflation target (AIT) instead of a defined level. It means that the overnight rate will stay at the present level for several more months.

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Main funds managed by the team

✓	Money Market
✓	Short Term Bond
✓	Bond
✓	IA Clarington Bond Fund
✓	IA Clarington Money Market Fund
✓	IA Clarington Real Return Bond Fund

iAIM snapshot

- Principal asset manager for iA Financial Group
- Major player in the asset management industry
- Manages $97 billion in general portfolios and segregated and mutual funds
- A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
- Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

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