INVESTMENT FUNDS

BOND

MONTHLY COMMENTARY

August 31, 2021

Market and portfolio updates

In contrast to previous months, bond yields rose slightly during the month of August, halting the downward trend that began last May. The yield on 10-year Canadian federal bonds started the month at about 1.12% and ended the month up about 10 basis points at 1.22%. The volatility seen in recent months continued into August, which is typically a month of low bond market liquidity.

An important event last month was the release of the minutes of the FOMC meeting held at the end of July. We learned that most of the committee members were now in favour of beginning to reduce bond purchases considering the recent rise in inflation and the progress in job creation since the bottom of the pandemic in 2020.

Another major event was Federal Reserve Chairman Jerome Powell's speech at the central bank's annual symposium. Wanting to make sure that the markets avoid linking the upcoming QE taper to future policy rate hikes, he spent several minutes of his speech explaining why a majority of the FOMC members believe that the recent sharp increases in the inflation rate will be temporary and that these increases will not cause the central bank to raise the policy rate quickly.

To everyone's surprise, Canadian GDP contracted in Q2/2021 due to the 3rd wave of COVID last spring. Currently, the new COVID-19 variant (Delta) continues to be a concern. On the other hand, the markets anticipate that the economic impact of the Delta variant may be less as the sanitary restrictions are less than in previous waves.

Economic data generally disappointed in August, impacted by concerns about the Delta variant. Consumer confidence has fallen dramatically recently. However, the data following the evolution of the COVID epidemic tends to show that we would be close to the highest point of increase in new cases and that we could see a reduction in the next few weeks.
An improvement on this front combined with a significant decrease in government support for the unemployed in the U.S. could bode well for job creation in the coming months. Recall that employment will be the focus of the U.S. Federal Reserve's decision to reduce bond purchases.

In conclusion, we still maintain our short duration bias as we believe we will see higher bond yields by the end of 2021 and that good economic data will be back. At current levels, bond yields look expensive to us.

We still consider corporate credits attractive in our portfolios as they offer a good yield given the low level of bond yields. However, corporate credit spreads tightened sharply last year and in the first quarter of 2021, leaving little to no room for further tightening. We still like this market, but the risks are more balanced than before. We have a bias to hold securities in the short- and intermediate-term part of the corporate bond curve.

We also own ETFs that give us exposure to USD-denominated corporate securities combined with low interest rate risk.

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ALEXANDRE MORIN, CFA

- Principal Portfolio Manager
- Joined iAIM in 2015
- More than 20 years of investment experience
- Bachelor's degree in Business Administration, Université Laval

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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