INVESTMENT FUNDS

BOND

MONTHLY COMMENTARY

October 31, 2021

Market and Portfolio Update

Bond yields were on the rise in October. The yield on 10-year U.S. Treasury bonds rose from 1.49% on September 30 to 1.56% on October 29. The upward movement was much more significant in Canada, with the yield on 10-year bonds rising from 1.50% at the end of September to 1.75% at the end of October. This significant divergence between the two bond markets occurred at the conclusion of the Bank of Canada meeting on October 27. Indeed, the latter surprised the markets by adopting a speech tinged with greater vigilance than expected regarding inflation and announced the immediate end of quantitative easing. This change in tone from the central bank, combined with the end of the fiscal year for the major Canadian banks, caused bond rates to increase significantly in volatility in the days that followed. This was particularly the case for bonds with a maturity of less than five years as the market quickly anticipated that the cycle of rate hikes could begin in the coming months. In addition, these major movements resulted in a significant flattening of the Canadian yield curve.

In general, the tone of the various central bankers is beginning to change. Indeed, inflation, which is still expected to be transitory, seems to be of increasing concern to monetary policy managers. If this high inflation turns out to be more persistent over time than anticipated, some central banks may decide to start their tightening cycle earlier than expected.

In conclusion, we continue to maintain our shorter duration bias than our benchmark, as we believe we will see higher bond rates by the end of 2021. Economic data, following the decrease in COVID cases due to the Delta variant, should become more positive again in the coming months. The evolution of inflation will be closely monitored by the global financial community. In summary, at current levels, we believe that bond yields are expensive.

Despite the significant tightening of their spreads since the start of the pandemic, we still consider credits attractive in our portfolios because they offer a good return given the low level of bond yields. We still like this market, but the risks are more balanced than before. We have a bias to hold securities in the short- and medium-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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