INVESTMENT FUNDS

BOND

QUARTERLY COMMENTARY

September 30, 2021

Market Comments

Although we saw a quick rise in interest rates seen in the first quarter, we didn't witness the same trend in the second quarter. However, we saw yields climb a little higher in the third quarter, mostly due to a more upbeat Federal Reserve (the "Fed") at the end of September. With solid economic data ahead, immunization campaigns well underway and less accommodative central banks (i.e. a taper of asset purchases expected by the Fed in November), we might see rates rise a bit as the economy continues to recover and the markets gradually continue to price in an eventual hiking cycle in the coming years. Consequently, it will pay off to deviate from the duration of our benchmark to capitalize on these movements.

In Canada, the massive fiscal stimulus programs put in place by the federal government to support the economy will increase the level of issuance, in part, in the long term, while overnight rates will be kept at the zero-lower bound for some time. This may create steepening opportunities that we are closely monitoring. In the United States, the taper that should begin in November 2021 and the increase in expected rate hikes in the next years by the Federal Reserve in its last meeting should flatten the curve. Those two realities should then create curve and relative value opportunities between the United States and Canada.

With tax packages in place, aggressive central banks maintaining loose financial conditions, and economies reopening, inflation has jumped to levels not seen in years. Even though the new policy framework put in place by the Fed at its September 2020 meeting would allow inflation to exceed the 2% target, the market has pushed inflation expectations very high. With real yields/breakeven rates at really high levels, we prefer to deal with the upside risks on inflation via our short duration positioning as well as our positioning on the yield curve.

ESG bonds

Designed to fund environmental or climate change mitigation projects, green bonds are becoming increasingly popular. It is possible to observe that the illiquidity discount formerly seen in the green bond market has become a scarcity premium mainly due to the popularity and low issuance of this type of bond. Being already invested in this market, we believe that these bonds will continue to perform in the months and years to come. We are increasing our allocation on opportunities while broadening our horizons of ESG bonds with investments in social bonds, such as gender equality bonds. Furthermore, in September, our team launched our first official responsible bond fund, in which we navigate the fossil fuel-free environment, prioritizing issuers with excellent ESG metrics while maintaining a risk/return profile like the other Canadian fixed income funds.

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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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