INVESTMENT FUNDS

BOND

MONTHLY COMMENTARY

March 31, 2021

A combination of better news related to COVID-19 (particularly the significant increase in vaccine doses administered in the U.S.) and greater tax support from Washington pushed bond rates higher during the month: the 10-year rate went from 1.42% to 1.74%. Like January and February, March was again marked by a lot of volatility with a significant increase in interest rates, mainly in the 10-year sector in Canada. The rise in Canadian interest rates followed that of the United States on a continuation of themes, such as concerns over inflation growth, particularly after the passage of the massive 1.9 trillion dollar relief program from the newly appointed Biden administration. In addition, Jerome Powell, Chairman of the U.S. Federal Reserve, did not show any concern in connection with the rise in bond yields and inflation. Also, rhetoric from several central bankers that overnight rates will remain at current levels have anchored short-term bond rates, resulting in continued steepening of yield curves.

Even though interest rates continued to rise in March, we are still in a historically low-rate environment, which encourages the search for yield. Although corporate credit spreads were close to pre-pandemic levels at the end of 2020, these continued to tighten in the first few months of the year. However, in March, they stabilized as the supply of new issues was high.

Finally, the Bank of Canada's announcement formalizing the end of the provincial bond buyback program had only a marginal effect on provincial credit spreads, which only widened by four basis points during the period.

In the first quarter, we were largely underweighted in federal government bonds, on average by 16%, allowing us to overweight different asset classes, such as corporate credits, short-term non-rated municipal credits and different exchange traded fund positions. The main contributor to our performance was our overweight in corporate bonds. That asset class provided a total return of 153 bps higher than our benchmark as the search for yield continued unabated. Seeing that the rally in risk asset markets kept going, we decided to keep our overweight exposure to corporate in the first quarter of 2021. We also added some exposure to higher-yielding securities, mostly in the United States, such as high-yield corporate bonds, short-term investment grade bonds, bank loans and preferred shares through the purchase of ETFs.

The second contributor to our performance was our use of derivatives, mostly regarding duration management. We use them opportunistically to manage our duration exposure or for relative value proposition between CAD and U.S. rates. We had a short bias on interest rates with these securities and we greatly benefited from it. The last principal contributor was our overweight in non-rated municipal credits. We were overweight this sector, which has a higher yield than rated municipal products, while having a shorter duration. Since the yields rose quickly in the quarter and credit spreads performed well, our overweight was positive to the overall performance of the fund.

Opportunities

Corporate sector, duration, inflation and yield curve

We still see corporate credits as an attractive overweight holding in our portfolios as it offers good carry and the demand for new issues is still strong. However, corporate credit spreads tightened further in first quarter and are now at the tight end of the range. We still like this market, but the risks are more balanced than they were, so the overweight remains relevant but to a lesser extent. We have a bias to own securities in the short and mid part of the corporate bond curve.

As always, we stay nimble and opportunistic on duration. With the quick rise in interest rates seen in the first quarter, we doubt that we will see the same trend in the coming months. Nonetheless, with the potential for inflation to rise in the short term, the rollout of immunization campaigns and the amount of new issuance funding large budgetary deficits, we could see rates move higher as the economy continues to recover. As a result, it will pay to deviate from our benchmark's duration to capitalize on those moves and opportunities could emerge in real yields/break-evens as inflation could rise once the economy recovers from the pandemic.

The massive fiscal stimulus programs put in place by governments to support their economies will increase the level of issuance in some parts of the curve, presumably in the long term while overnight rates will be kept at the zero-lower bond for a long time, presumably at least until 2023 according to the latest dot plots published from the FOMC committee. It is likely to create curve and relative value opportunities between the United States and Canada.

ESG/Green bonds

Designed to fund environmental or climate change mitigation projects, green bonds are becoming increasingly popular. Being already invested in this market, we believe that these bonds will continue to perform in the months/years to come, even more so considering the infrastructure package that Joe Biden is trying to push through. We intend to increase our allocation on opportunities.

Risks

COVID-19 and economic data

There still are many uncertainties about the duration of this pandemic and the economic recovery since variants are spreading fast around the globe and many countries are struggling with a third wave of infections. Uneven global vaccine rollout is also a recovery risk that needs to be monitored closely, since it appears that countries without vaccine production facilities lag quite significantly behind their peers in the vaccination rate. There is a lot of optimism in the markets with vaccination campaigns around the world and the reopening of economies. Economic data must meet expectations and have little to no margin for error in this context.

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

LOUIS GAGNON, CFA

- Senior Portfolio Manager
- Joined iAIM in 2005
- More than 30 years of investment experience
- Bachelor's degrees in Business Administration and Economics, 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

DISCLAIMER

This document was prepared by iA Investment Management. Unless otherwise indicated, the segregated funds presented in this document are offered by iA Financial Group and the Mutual Funds presented are offered by iA Clarington Investments Inc.

The opinions expressed herein are based on current market conditions and may change without notice. They are not intended to provide investment advice. The forecasts provided herein are not guarantees of future performance, and include risks, uncertainty and assumptions. While these assumptions appear reasonable, there is no guarantee that they will be confirmed.

An investment in the mutual fund or the segregated fund may result in commissions, trailing commissions, management and other fees. Please read the prospectus or the Information Folder before making an investment. Each rate of return indicated is a historical annual compounded total rate of return that takes into account fluctuations in the value of units or shares and the reinvestment of all distributions and does not take into account buying commissions or redemption fees, investment fees, optional fees or tax on payable income by a unit holder, which would contribute to poor performance. Mutual Funds are not guaranteed and the segregated funds are guaranteed in part, under certain conditions. The value often fluctuates upward or downward, at the risk of the subscriber, and past performance is not indicative of future performance.

The rate of return is used to illustrate the effects of the compound growth rate only and is not intended to reflect the future values of the investment fund or the return on an investment in the investment funds.

iA Financial Group is a business name and trademark of Industrial Alliance Insurance and Financial Services Inc. iA Investment Management is a trademark and business name under which Industrial Alliance Investment Management Inc. operates. iA Investment Management and iA Clarington Investments Inc. are wholly owned subsidiaries of iA Financial Group.

This publication contains information provided by companies not affiliated with iA Financial Group (“Third Party Content Providers”), including, but not limited to, ratings, stock indexes and company-classification systems (“Third Party Content”) Third party Content is the property and trademarked by the relevant Third Party Content Providers and has been licensed for use by iA Financial Group. The use of Data received from Third Party Content Providers by iA Financial Group is authorized under licence.

This publication contains information provided by companies not affiliated with iA Financial Group (“Third Party Content Providers”), including, but not limited to, ratings, stock indexes and company-classification systems (“Third Party Content”) Third party Content is the property and trademarked by the relevant Third Party Content Providers and has been licensed for use by iA Financial Group. The use of Data received from Third Party Content Providers by iA Financial Group is authorized under licence.

The information presented in this publication is provided for informational purposes only. iA Financial Group and Third Party Content Providers make no representations or warranties as to the information contained herein and no not guarantee its originality, accuracy or completeness. iA Financial Group and Third Party Content Providers disclaim all liability in respect of this information or the use or misuse thereof.

The investment funds offered by iA Financial Group (“Funds”) are not sponsored, endorsed, sold or promoted by Third Party Content Providers. Third Party Content Providers make no representation as to the relevance of investing in the Funds, offer no guarantee or conditions in respect thereof, or assume liability in respect of their design, administration or negotiation.

Financial and economic publications of iA Financial Group are not written, reviewed or approved by Third Party Content Providers.

Any information contained herein may not be copied, used or distributed without the written consent of iA Financial Group and/or the relevant Third Party Content Provider.

Where FTSE indexes are used, or referenced: FTSE International Limited (“FTSE”) © FTSE [2018] ® is a trademark of the London Stock Exchange Group companies and is used by FTSE under licence. “NAREIT®” is a trademark of the National Association of Real Estate Investment Trusts and used by FTSE under licence. “EPRA®” is a trademark of the European Public Estate Association and used by FTSE under licence. “TMX” is a trademark of the TSX Inc. used by FTSE under licence.

NASDAQ®, OMXTM, NASDAQ-100® and NASDAQ-100 Index® are registered trademarks of NASDAQ Inc. and are licensed for use by iA Financial Group.

Where the Global Industry Classification Standard (GICS) is used or referenced: the GICS was developed by MSCI Inc. (“MSCI”) and Standard & Poor’s Financial Services LLC (“S&P”) and is licensed for use by iA Financial Group.

The International Equity Index Fund, the Global Equity Index ACWI Fund, the Global Stock Account, the European Stock Account and the International Stock Account are each indexed to an MSCI index. MSCI indexes are licensed for use by iA Financial Group. For more information about the MSCI indexes, visit htpps://msci.com/indexes.