

IA Wealth Core Bond Pool

Fixed Income Commentary: November 2021

Portfolio and market update

In November 2021, the yield on 10-year Canadian government bonds fell by 15 basis points, from 1.72% on October 29 to 1.57% on November 30. The yield on U.S. Treasury bonds with the same maturity fell by 11 basis points, from 1.55% at the end of October to 1.44% at the end of November.

November was a positive month for the Canadian Universe Bond Index; however, all this positive performance was realized within the last week, when concerns over the new COVID variant, Omicron, brought volatility back into the financial markets. This new variant has severely shaken investor confidence. As an example, Friday, November 26, was the market session that saw the largest rate drop since March 2020, at a time when we were beginning to learn more about COVID-19 and the major issues that were arising. Risky assets such as equities and corporate credit spreads also took a hit with the news surrounding Omicron. The market reacted strongly to the announcement of this new variant, particularly out of fear that currently available vaccines would not be effective against this mutation. There was also concern that the supply issues experienced in recent months would be exacerbated by government restrictions, as seen with the Delta variant.

Furthermore, November was a month in which the U.S. central bank took a harder line on inflation, which, in its view, is not as transitory as expected. Indeed, during a speech on November 30, Jerome Powell, Chairman of the Board of Governors of the U.S. Federal Reserve, surprised the market on this subject. Powell, historically quite conservative and cautious in his speeches, indicated that he was thinking of accelerating the reduction of the Fed's quantitative easing (taper) and that it was time to retire the word "transitory" when talking about current inflation. The market took this change in tone as a more aggressive signal that the policy rate tightening cycle would begin sooner than expected, resulting in a significant flattening of the yield curve. Similarly, the Canadian bond index rebalancing and the coupon payment on December 1st caused volatility in the Canadian market and accentuated the flattening of the yield curve observed since Powell's speech.

Credit spreads, as mentioned above, widened in response to the emergence of the Omicron variant and the subsequent market volatility. Although we take the COVID-19 situation very seriously and monitor it closely, we still consider credits to be attractive in our portfolios as they offer a good return given the low level of bond rates. We therefore took advantage of the sudden widening of corporate credit spreads to add specific products to our portfolios.

In conclusion, we continue to maintain our shorter duration bias than our benchmark, as we believe we will see higher bond yields by the end of 2021 and into 2022.

Portfolio performance & characteristics

| Fund, benchmark and index performance | 1 Month | 3 Months | YTD | 1 year | 3 years | 5 years | 10 years | Since inception ¹ |
|---------------------------------------|---------|----------|-------|--------|---------|---------|----------|------------------------------|
| IA Wealth Core Bond Pool – Series F | 0.7% | -1.6% | -4.1% | -3.7% | 4.0% | 2.8% | 3.1% | 4.1% |
| Benchmark ² | 0.9% | -1.6% | -4.1% | -3.8% | 4.1% | 2.9% | 3.3% | 4.4% |

Source: iA Clarington, Morningstar, as at November 30, 2021.

| Portfolio characteristics | |
|---------------------------|-------|
| Modified duration (years) | 8.2 |
| Fund size (\$million) | 309.8 |
| No. of holdings | 366 |
| Average credit quality | AA |
| Portfolio yield | 2.5% |

Source: iA Clarington, as at November 30, 2021.

Dealer use only. ¹IA Wealth Core Bond Pool Series F inception date is October 2, 2006. On or about July 24, 2020, Series F was merged into Series FX and Series FX was renamed Series F. ²The Fund's benchmark is FTSE Canada Universe Bond Index.

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