INVESTMENT FUNDS

Bonds

MONTHLY COMMENTARY

April 2023

Diminished volatility but lingering concerns

Strong bid for safe-haven assets

April was significantly less volatile than the first three months of the year as worries about the regional banking crisis in the United States subsided temporarily, with 10-year Treasuries trading in a range of 3.30% to 3.60%.

Nonetheless, the strong bid for safe-haven assets remained amid growing signs of slowing economic activity, persistently sticky inflation and percolating concerns about solvency issues in the U.S. banking system.

Keep your hardhats on

With the Federal Reserve's May hike already priced into the market, we expect the focus to be on slowing economic conditions in North America and the imminent consequences of such rapid tightening of monetary policy. Even so, we expect the fight over the U.S. debt ceiling to take centre stage in May, with June 5 pegged as the critical date when the government will run out of cash.

Performance analysis

Our portfolio performance was helped by our overweight position in corporate bonds and our underweight in federal bonds. Specifically, our overweight allocation to the corporate segment was positive; in fact, it generated the best total return for the period. Our underweight allocation to the federal segment also added value as this asset class finished the month with a weak performance.

Moreover, our security selection in the provincial segment was beneficial to the fund because we elected to underweight laggards such as Alberta, British Columbia and Quebec. We compensated for our underweight in the provincial segment by owning bonds with a longer duration, which proved positive during the month.

Alexandre Morin, CFA

Senior Director, Portfolio Manager, Fixed Income

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

Positioning: Modestly long but prepared for increased volatility

Ever mindful that the United States typically enters a recession 6 months after the segment of the Treasury yield curve from 3 months to 10 years inverts (which is where we are now), we are biased toward a modestly longer duration position because a decent bid is expected to persist for safe-haven assets.

> "At the same time, we're prepared to take advantage of any volatility associated with the current U.S. debt ceiling battle."

We are also overweight quality credit, although we are closely monitoring for the onset of any recession-related widening. We continue to overweight non-rated bonds from municipal issuers in the Province of Quebec for their excellent carry and low interest rate risk.

Key Takeaways

- April was less volatile than the first three months of the year as worries about the regional banking crisis in the United States subsided temporarily.
- We expect the fight over the U.S. debt ceiling to take centre stage in May.
- We are biased toward a modestly longer duration because a decent bid is expected to persist for safe-haven assets.

About iAGAM

A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

SRM607A-1(23-05) ACC

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