INVESTMENT
FUNDS

Bond (iA)

MONTHLY COMMENTARY

July 2023

Bond yields rise in July

Central banks raise rates amid strong labour data and sticky inflation

Ten-year yields rose 15+ basis points in Canada and the United States in July as employment numbers continued to be strong and core inflation remained sticky, although it was down considerably from when the current hiking cycle began. Adding to the upward pressure on yields was the Bank of Japan’s policy shift allowing levels to drift higher, and prompting some curve steepening as well. Even so, the July rate hikes in Canada and the United States had little direct impact on yields because they were widely expected.

The bond market is likely to pause and consolidate

Bond yields pushed notably higher into August and are looking very attractive as they approach 4.2%, especially because we see the central banks in Canada and the United States at or near the end of their current hiking cycles. At the same time, we expect ongoing yield volatility centred on coming labour and inflation data, as has been the case all year.

We think tightened monetary conditions will eventually exert a more discernable dampening effect on economic growth and inflation; therefore, we have a positive outlook on rates and an overweight on duration, on a relative basis.

Performance analysis

The main positive contribution to performance during the quarter was our underweight in the federal segment, which performed poorly in a rising-yield environment. Also, to compensate for our underweight, we held bonds with long maturities that performed better because of the flattening yield curve. Additionally, we were overweight long-term provincial bonds, which also did well because of the yield-curve flattening. Our overweight in corporate bonds also added value because they outperformed owing to their shorter duration. Finally, our position in non-rated municipals did well; their short maturities helped them outperform in a market that saw bond yields go up.

iA Financial Group

#1 in net sales of segregated funds in Canada since 2016

Alexandre Morin, CFA

Senior Director, Portfolio Manager, Fixed Income

- Joined iA in 2015
- More than 25 years of investment experience
- Bachelor's degree in Business Administration, Université Laval

A long duration and an overweight in high quality IG credit

We were very tactical regarding duration in July, actively adding when yields rose and taking profits when they fell. In addition, we were overweight higher-quality corporates, which outperformed government bonds as risk investors increased valuations on growing expectations that the North American economy may avoid an economic slowdown altogether. We remain modestly underweight provincial bonds and are looking to add to our positions once levels become more attractive.

"Additionally, as has been our position for a while, we continue to overweight non-rated bonds issued by Quebec municipalities, given their attractive relative valuations."

We're also exploring value-added opportunities outside Canada and recently took profits on our position in Australian bonds, as well as on U.S. TIPS, which we traded on a break-even basis.

Key Takeaways

- Bond yields were fairly volatile but, on net, rose in July, providing us with tactical opportunities to manage our relative duration and curve positioning.
- The portfolio has a longer duration than its benchmark and an overweight in quality credit.
- We continue to actively manage our exposure to rates, curve, and credit, and are looking outside Canada for opportunities to add value.

About iAGAM

A magnet for top investment talent, iAGAM 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(23-08) ACC