INVESTMENT FUNDS

Bond (iA)

MONTHLY COMMENTARY

August 2023

Bond yields hit multiyear highs in August

Yields rallied amid signs of slowing growth

Despite being the height of summer, August was a momentous month for bonds: yields crept up to multiyear highs, with the 10-year eclipsing 3.8% in Canada and 4.3% in the United States. The fixed income markets were buffeted during the month by ongoing strong labour data, increased funding needs from the U.S. Treasury, a one-notch downgrade of the United States from AAA by Fitch, a poor bond auction in Japan, combined with a change in its yield-curve-control scheme, and hawkish FOMC minutes. Then, a flurry of weaker U.S. economic data in the second half of August put a bid worth 35 basis points back in the bond market.

A slowing economy will be a constructive background for bonds

We continue to expect bond yields to decline over the next 12 months as the impact of significant and rapid interest rate increases by central banks in the past couple of years makes its way through the economy.

At the same time, we think the bullish trend in North American bond yields will not be linear; therefore, we will continue to monitor market developments and adapt our investment approach as needed, particularly through duration, which is currently relatively long. Nimbleness is key in today's volatile markets.

Performance analysis

The main detractor was our positioning in the federal segment; we were underweight at a time when it outperformed the benchmark. Also, we owned longer-term bonds that underperformed in August's rising-yield environment. Our provincial bonds were another detractor. Even though we were underweight as they underperformed the benchmark, we owned long-term bonds that fared worse than the benchmark. On the positive side, our exposure to the municipal and corporate segments was positive for the portfolio; they overperformed the benchmark because of their shorter duration.

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 a reduced overweight in IG credit

As noted, we remain tactical with our duration positioning, adding when yields rise and taking some profits as they come down. By the end of August, we were approximately 0.8 overweight duration.

> "We are still modestly overweight higher-quality corporate credit but reduced our positioning during the month, given our expectation of slowing economic conditions."

We are also still underweight provincial bonds but are looking to add to our exposure at more attractive levels. Meanwhile, we maintained our overweight of non-rated bonds issued by Quebec municipalities and continued to search for opportunities outside the Canadian bond market.

Key Takeaways

- Shorter-dated yields fell marginally, whereas longer-dated yields rose during the month.
- We remain long duration and overweight credit, although we reduced our exposure to credit slightly during the month.
- We will continue to actively manage our exposure to rates, curve, and credit, and to look 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(23-09) ACC