INVESTMENT FUNDS

Bonds

MONTHLY COMMENTARY

January 2023

A rally in every asset class

The markets expect the end of the hiking cycle

Fixed income enjoyed the positive momentum on the capital markets at the start of 2023, as investors chose to disregard softening economic data and earnings, focusing instead on declining inflation and presumed rate cuts by the Fed later this year. Adding to the market's buoyancy was the slowing pace of the Fed's hikes to an expected 25 basis points per move, with peak rates on the horizon.

The bond market should pause and consolidate

We remain skeptical about the market's pricing-in of rate cuts for 2023, preferring to take central bankers at face value and their admonitions about higher rates throughout the year. We think volatility will persist, particularly in jobs and inflation data, as the market continues to test the Fed's resolve. Credit, meanwhile, also rallied strongly to start the year, a development that appears to be based on a fear of missing out on the present tightening rather than a sober appraisal of declining fundamentals.

Performance analysis

One of the main positive contributors to the Fund's performance in January was our decision to add credit products at the end of 2022, which helped offset the impact of our initially modest shorter-duration position. Specifically, our underweight position in the federal segment, which recorded a lower total return for the period, was a positive during the month. Our positioning in the provincial segment was also beneficial owing to its longer duration.

Our corporate and municipal bonds were detrimental, however, owing to their shorter duration in an environment of rapidly declining bond yields.

iA Financial Group

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

Alexandre Morin, CFA

Senior Director, Portfolio Manager, Fixed Income

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

Neutral duration and overweight credit

> "Considering the softer tone from the Fed and the demand for duration since the start of the year, we recently closed our short-duration position."

As usual, we will stay nimble because we expect bond-yield volatility to create multiple opportunities to position our portfolios on either side of neutral duration.

We still favour quality corporate credits, even though their spreads did well recently, because they offer a much better carry proposition than a year ago. If corporate spreads widen, we will be ready to add to our exposure.

Finally, we are still underweight provincial credits as we wait for better entry levels and we continue to be overweight non-rated bonds issued by municipalities in the province of Quebec.

Key Takeaways

- The year started with a rally in every asset class.
- A consolidation in bond yields is now expected.
- We are neutral duration and overweight credit as we move into the year.

About iAIM

A magnet for top investment talent, iAIM 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 iAIM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

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