INVESTMENT FUNDS

Bond

MONTHLY COMMENTARY

February 2023

Markets reassess their views of central bank positioning

Bonds sell off sharply

Stronger economic data, especially labour market and inflation data, pushed the terminal rate in the United States closer to 5.5%, with no pivot expected this year and a shift in market sentiment. Fed speakers did their part by regularly admonishing investors about the need to keep rates higher for longer.

Bonds become more attractive

Despite continued uncertainty about the direction of surprisingly sticky inflation and the response by central banks, we think bonds became more attractive during the month, with levels nearing the top of the range reached in late October 2022. In the meantime, we made it through the fourth-quarter earnings season with only a few negative surprises and, thus, a decent performance in the credit markets.

Performance Analysis

Our overweight positions in corporate and municipal bonds were the main positive contributors to performance in February. Specifically, our overweight in the corporate segment, which exhibited the least negative total return for the period, was a positive. Our positioning in the municipal segment was also a positive contributor to performance, given its shorter duration.

In contrast, our federal and provincial bonds subtracted value. We held underweight positions in those segments but owned bonds with longer durations in an environment of rapidly rising bond yields. Finally, our use of derivatives in the US bond market was also detrimental.

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

Taking advantage of higher yields to increase our duration

> "Because long-term bonds look more appealing than they did earlier this year, we are using the backup in yields to slowly build a longer-duration position for our portfolios."

In addition, we are maintaining an overweight position in quality corporate credit, which offers a better carry proposition than it did a year ago. We closed out a short position in provincial credit because the volume of new issues was lower than expected, resulting in a good relative performance by the segment so far this year. Finally, we maintained our overweight in non-rated bonds issued by Quebec municipalities.

Key Takeaways

— Strong economic data forced the markets to reassess their views on central banks.
— Bond yields were sharply up during the month.
— Credit spreads held steady during the month.

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.