INVESTMENT FUNDS

BOND

QUARTERLY COMMENTARY

March 31, 2022

Market comments

Having made our way through the first quarter of the year, most parts of the capital markets have been resoundingly battered and bruised, and by epic proportions at times, and the world is awash in an array of fresh storylines and narratives, some of which will not go away. By the time the first quarter ended, 10 year Canada bond yields stunningly increased by roughly 1.00% to 2.40%, while 10 year U.S. Treasuries gapped higher by nearly 0.85% to 2.30%.

From a capital markets perspective, the one uniting theme in Q1 was volatility, although the chief story in January was equities as the VIX soared due to building concerns about inflation that sent the markets tanking. The acute pressure on technology stocks was the result of investors embracing a growth to value rotation narrative in the stock market.

Thankfully for fixed income investors, bond markets largely stood back and only watched the equity market being decimated in January. Then, unfortunately for bondholders, February saw equities take a backseat as fixed income was placed squarely in the crosshairs, punctuated by growing rhetoric from central banks about reigning in inflation and rising projections about the speed and aggressiveness of their policy actions. Intraday moves of 10 basis points for yields became a more common occurrence, although 10 years in both Canada and the U.S. remained mostly rangebound between 1.80% and 2.00%, exiting the month towards the lower end once Russia sent troops into Ukraine.

On to March, and the wheels finally came off for fixed income. In Canada, 10 year yields screamed higher by 0.70% to 2.40%, while 10 year Treasuries exploded by 0.60% to just under 2.35%. Meanwhile, gyrations in the curve became the main story, precipitating talk of a pending recession. Two year and 10 year spreads in both Canada and the U.S. plummeted in March to close out flat on their way to inversion in April, following inflation prints above 5% up north and over 7% down south. Pundits started calling for multiple 50 basis point moves by the respective central banks, despite meetings earlier in the month that started off the current hiking cycle with only 25 basis point clips and no decided word on quantitative tightening. Inflation eclipsed war as the primary narrative by month end, with fears both central banks were behind the curve on dampening rising prices.

Although we have been observing for some time that volatility is an issue facing the markets, it is still difficult to fathom the extent and acuteness that was experienced by equities in January and by bonds in March. The market has clearly demonstrated that uncertainty around inflation, how much central banks will have to raise rates and whether we slip into recession will at points culminate in bouts of extreme volatility. What's more, the sheer number of issues confronting the markets at present has left

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investors with heads spinning and more prone to throwing in the towel at points. We expect violent curve moves to continue as well, especially if we see signs of building economic weakness.

Duration management

We generally maintained a shorter duration during Q1/22 due to the upward move in yields, but at points made tactical shifts towards benchmark duration when the fixed income markets were experiencing periods of pronounced yield declines as investors digested news about the Russian invasion of Ukraine. We will continue to remain nimble going forward given the ongoing violent daily swings in yields but believe the current trend towards higher yields will persist as market expectations for policy moves from the U.S. Fed and the Bank of Canada grow increasingly aggressive.

Yield curve

As mentioned, the yield curve materially flattened (i.e., shorter dated yields underperformed longer) in Q1/22 with 2 years in both Canada and the U.S. screaming upwards, causing numerous inversions throughout, albeit mostly temporary. As we moved into April, most segments of the curve re-steepened as yields for longer dated portions caught up with the acute pressure that was placed on 2s during March. Like with duration, we will remain nimble to take advantage of any reshaping in the yield curve as the pronounced volatility in the market is providing numerous short-term tactical opportunities.

Corporate credit

Corporate spreads suffered some initial widening in Q1/22, first on the back of equity market weakness and then due to inflation worries, as well as heavy new issue supply and concerns about the invasion of Ukraine by Russia. Moving into March, with much of the supply out of the way, corporate spreads managed to retrace to where they were before the Ukraine invasion. A backdrop of solid corporate credit profiles, combined with a taming of equity worries, had investors picking away at newfound opportunities that emerged on the back of previous widening. Nonetheless, we believe corporate spreads are currently at expensive levels and have started to selectively take profits in the lower parts of the credit quality spectrum.

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ALEXANDRE MORIN, CFA

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

Main funds managed by the team

✓	Money Market
✓	Short Term Bond
✓	Bond
✓	IA Clarington Bond Fund
✓	IA Clarington Money Market Fund
✓	IA Clarington Real Return Bond Fund

iAIM snapshot

- Principal asset manager for iA Financial Group
- Major player in the asset management industry
- Manages $97 billion in general portfolios and segregated and mutual funds
- A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
- Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

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