CI CANADIAN BOND FUND

Q4-2024 Commentary

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.
CI Canadian Bond Fund, Series F*	4.6%	-0.4%	1.2%	1.7%	3.7%
Benchmark: FTSE Canada Universe Bond Total Return Index	4.2%	-0.6%	0.8%	2.0%	4.4%

* Inception date: August 8, 2000. Formerly Signature Canadian Bond Fund, renamed effective July 29, 2021.
Source: CI Global Asset Management, as at December 31, 2024.

PERFORMANCE SUMMARY

- Over the fourth quarter of 2024, CI Canadian Bond Fund, Series F (the Fund) returned 0.04% compared to its benchmark, the FTSE Canada Universe Bond Total Return Index, which returned -0.04%.
- The Fund slightly outperformed its benchmark during the quarter. While the backup in government bond yields resulted in negative returns for that component of the Fund's portfolio, the Fund's overweight allocation to corporate bonds and superior security selection across corporate bonds combined to drive the Fund's overall outperformance.

CONTRIBUTORS TO PERFORMANCE

A holding in U.S.-dollar junior subordinate bonds (6.25% Mar. 1, 2078) of Enbridge Inc. contributed to the Fund's performance as the beginning of an interest rate cutting cycle by most major central banks benefited higher-risk assets. Additionally, the bond's high coupon made it attractive to those reaching for yield during a period of increased demand.

Also contributing to the Fund's performance during the quarter was a holding in Canadian Imperial Bank of Commerce 4.00% January 28, 2082 bonds, which benefited from an increase in price as the security approaches its next call date in December 2026. With rate reset spreads continuing to tighten for bank hybrids, the probability of being called at par increases.

DETRACTORS FROM PERFORMANCE

Holdings in two Canadian government bonds – Government of Canada 2.0% December 1, 2051 and Government of Canada 3.5% December 1, 2045 bonds – detracted from the Fund's performance as interest rates generally increased during the quarter, leading to underperformance in long-duration securities.

PORTFOLIO ACTIVITY

During the quarter, we established a new Fund position in Canada Housing Trust No. 1 4.25% March 15, 2034 bonds. The security was purchased as part of a contraction out of Canada Housing Trust No. 1 3.5% December 15, 2034 bonds, as the yield spread became quite flat. The Fund's holding in Canada Housing Trust No. 1 3.5% December 15, 2034 bonds was eliminated.

MARKET OVERVIEW

Inflation has closed the gap with central bank targets in both Canada and the U.S., but in the U.S., the last mile appears to be somewhat sticky, and markets have begun adjusting to expectations for fewer interest rate cuts in 2025. The Bank of Canada's overnight lending rate is at 3.25% as of the start of the year, and markets are pricing in at least two quarter-point interest rate cuts in 2025. Meanwhile, the U.S. Federal Reserve Board's federal funds rate is set at 4.50% as of the start of the year, and markets are expecting two quarter-point cuts during the year.

Markets are optimistic that the incoming Donald Trump administration will follow through on promised tax cuts and deregulation, which are expected to boost economic activity. Conversely, the potential for tariff-driven trade wars suggests caution, with Canada a potential target. Any rebound in inflation triggered by U.S. protectionism could curb the pace of remaining interest rate cuts. In Canada, the political winds are shifting, with the Conservative Party currently favoured to beat the long-reigning Liberal Party in an election to be held in 2025. The Conservative platform is centred around tax cuts, fiscal spending cuts, energy and raw materials extraction, and the removal of carbon taxes.

We view current yield levels as attractive. Canada faces several challenges in 2025, including reduced immigration, rising consumer mortgage payments and economic uncertainty related to the Trump administration. The market is pricing in two interest rate cuts, but economic challenges may necessitate more. At current yield levels, bonds look attractive.

We believe investment-grade credit will provide moderately positive excess and good absolute returns in 2025, although uncertainty is likely to intensify as the year progresses. We expect the current favourable environment for credit to continue in the first half of 2025, but our base case is for spreads to end the year 10 to 20 basis points wider. A continuing strong new issue market, increased merger and acquisition activity triggered by a looser regulatory regime in the U.S. and uncertain political developments should all drive an increase in risk premia. Attractive all-in yields and low but stable economic growth are expected to keep any spread widening modest.

In light of these views, the Fund’s portfolio remains overweight in credit versus its benchmark as we continue to see relative value at this time.

Sources: CI Global Asset Management and Bloomberg Finance L.P.

For more information, please visit ci.com.

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Published January 30, 2025.