CI CANADIAN CORE PLUS BOND FUND

Q1-2025 Commentary

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.
CI Canadian Core Plus Bond Fund, Series F*	6.5%	1.0%	0.6%	N/A	1.8%
Benchmark: FTSE Canada Universe Total Return Index	7.7%	2.5%	0.9%	1.8%	2.2%

* Inception date: November 11, 2000. CI Canadian Core Plus Bond merged into CI Canadian Bond Fund effective May 9, 2025.
Source: CI Global Asset Management, as at March 31, 2025.

PERFORMANCE SUMMARY

- Over the first quarter of 2025, CI Canadian Core Plus Bond Fund, Series F (the Fund) returned 0.3% compared with its benchmark, the FTSE Canada Universe Total Return Index, which returned 2.0%.
- The Fund underperformed its benchmark during the quarter.

CONTRIBUTORS TO PERFORMANCE

The Fund's holding in The Toronto-Dominion Bank 4.97% Series 1 preferred shares was a top contributor to performance. This rate-reset security was up for redemption or reset at the end of October 2024. The market was pricing an expected redemption, and our analysis indicated that the bank would redeem the shares as well. However, just before the end of September, the bank announced that it was resetting the shares at 4.97%, so the price fell $1.75 to align with market current yields. After the fall in price, these preferred shares became attractive as government bond yields, particularly the 5-year Government of Canada (GoC) bond, declined in the first quarter of 2025.

A position in Constellation Software Inc. 8.33197% Mar. 31, 2040 floating-rate note also contributed to the Fund's performance. Given the expectation of elevated inflation on the back of global tariffs, it was thought that central banks would hold off on additional interest rate cuts so as not to stoke inflation fears further. This made this floating-rate note attractive as future expected coupons were expected to be the same or potentially higher. The company also continued to have solid fundamentals during this time.

DETRACTORS FROM PERFORMANCE

The Fund's holding in Loblaw Cos. Ltd. 5.3% Series B preferred shares detracted from performance. In December 2024, the company announced the redemption of its Series B preferred shares would be on January 8, 2025 at par together with any accrued and unpaid dividends. The shares were trading slightly above par before the redemption date, which led the security to detract from the Fund's performance.

A holding of Government of Germany 0.0% Aug. 15, 2052 bonds detracted from the Fund's performance. German yields rose and bonds underperformed following Germany's agreement at the start of March 2025 to change borrowing rules to spend more on defence and infrastructure.

PORTFOLIO ACTIVITY

We purchased a new position in GoC 0.5% Dec. 1, 2030 bonds for the Fund based on the prospect of a tariff war, which led us to favour the middle of the yield curve where bonds should benefit from potential interest rate cuts by the Bank of Canada (BoC).

A holding in Loblaw Cos. Ltd. 5.3 % Series B preferred shares was eliminated from the Fund as the shares were redeemed by the company at par on January 8, 2025.

MARKET OVERVIEW

Going into 2025, the Fund was positioned to take advantage of an economic backdrop of moderate yet positive economic growth, expectations for further BoC interest rate cuts and continued strong demand for corporate credit. In addition, expectations for a business-friendly climate from the incoming Trump administration were high.

However, financial markets have been disappointed by the start of the new U.S. administration, with the S&P 500 Index down 4.6%, U.S. 10-year government bond yields down 36 basis points (bps) and the Canadian 10-year government bond yield down 26 bps over the quarter. We attribute the sapping of business confidence to the uncertainty caused by the U.S. administration's focus on gutting government programs, enacting tariffs on global trade partners and cutting taxes, rather than on fiscal conservatism, deregulation and following through on early expectations for more business-friendly policies.

The threat of U.S. tariffs on the automotive industry, steel and aluminum, and other resource sectors in Canada has citizens and companies forced to reconsider long-standing consumption and trade relationships. The probability of recession in Canada has risen, while tariff announcements from the Trump administration has companies on hold as they await more certainty.

Central bankers around the world are in a difficult spot trying to balance the risk of slowing economic growth from a U.S. trade war against the inflationary effects of reciprocal tariffs in key industries, and supply shocks from shifting global supply chains.

Further interest rate cuts in Canada should benefit government bonds. However, the prospect of tariff-driven inflation, emerging concerns about stagflation and a shifting tone from the BoC may limit the upside in bonds that normally materialize when recession concerns take hold, especially in longer maturities. We continue to favour the belly of the Canadian government bond curve.

Corporate spreads are approaching our full-year base case expectations of 10–20 bps wider sooner than expected, and the probability of further widening has risen given the increasing probability of a global trade war and recession. However, with the increased uncertainty, new issuance supply should adjust lower as companies delay mergers and acquisitions or capacity expansion in light of heightened uncertainty. Provided a global recession is avoided and merely experience a period of slow but positive growth as the United States negotiates with its key trading partners, we continue to see value in credit. We do, however, recognize that tariffs add uncertainty, which should continue to weigh on credit and hurt the growth outlook for companies. As such, we are taking a more balanced outlook in this environment and being more cautious than we were before tariff announcements by decreasing the Fund's weight of credit and increasing quality within the Fund's portfolio.

Source: CI Global Asset Management

Glossary of Terms :

Yield Curve: A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. A normal or steep yield curve indicates that long-term interest rates are higher than short-term interest rates. A flat yield curve indicates that short-term rates are in line with long-term rates, whereas an inverted yield curve indicates that short-term rates are higher than long-term rates.

CI GLOBAL ASSET MANAGEMENT

For more information, please visit ci.com.

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