CI CANADIAN CORE PLUS BOND FUND

Q4-2024 Commentary

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.
CI Canadian Core Plus Bond Fund, Series F*	9.2%	-1.5%	0.5%	N/A	1.9%
Benchmark: FTSE Canada Universe Total Return Index	4.2%	-0.6%	0.8%	2.0%	2.0%

* Inception date: December 12, 2018.
Source: CI Global Asset Management, as at December 31, 2024.

PERFORMANCE SUMMARY

- Over the fourth quarter of 2024, CI Canadian Core Plus Bond Fund, Series F (the Fund) returned -0.5% compared with its benchmark, the FTSE Canada Universe Total Return Index, which returned 0.0%.
- The Fund underperformed its benchmark largely as a result of underperformance in government bond holdings.
- The Fund's overweight allocation to corporate bonds, as well as security selection in the corporate sector, contributed to performance.

CONTRIBUTORS TO PERFORMANCE

The Fund's holding in Manulife Financial Corp. 4.1% Mar. 19, 2082 bonds was a top contributor to performance. This rate-reset hybrid security benefited from continued spread tightening for hybrid bonds. As market spreads continue to decrease, the probability of it getting called at par increases.

A position in Loblaw Cos. Ltd. 5.3 % Series B preferred shares also contributed to the Fund's performance. This security was called at $25 in January 2025. The announcement of the call in December 2024 resulted in a jump in the price of the preferred shares.

DETRACTORS FROM PERFORMANCE

The Fund's holdings in U.S. Treasury 4.125% Aug. 15, 2053 and U.S. Treasury 3.625% Feb. 15, 2053 bonds detracted from performance. Government bond yields rose in both Canada and the United States. However, yields on U.S. Treasuries rose more than Canada government bond yields because of more resilient economic data in the United States.

PORTFOLIO ACTIVITY

We purchased for the Fund a new position in Canada Housing Trust No. 1 4.25% Mar. 15, 2034 bonds to replace a holding in Canada Housing Trust No. 1 3.5% Dec. 15, 2034 bonds. The latter holding was eliminated from the Fund.

MARKET OVERVIEW

Inflation has declined at or close to central bank targets in both Canada and the United States. However, in the United States, the last mile appears to be somewhat sticky, and markets have been adjusting to expectations for fewer interest rate cuts in 2025. The Bank of Canada overnight lending rate is currently (as of January 29, 2025) at 3.00%, and markets are pricing in one to two more 0.25% cuts in 2025. Meanwhile, the U.S. Federal Reserve Board's federal funds rate is at 4.50%, and markets are expecting one to two 0.25% cuts to this rate.

Markets are optimistic that the Trump Administration in the United States will follow through on tax cuts and deregulation, which are expected to boost economic activity. However, 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. Early talking points from the Conservatives are centred on 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 one to two more interest rate cuts, and economic challenges may necessitate more. At current yield levels, bonds look attractive.

We believe that investment-grade credit should provide good returns in 2025, although uncertainty will likely pick up 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 10-20 basis points wider. A strong new issues market, increased mergers and acquisitions activity triggered by a looser regulatory regime in the United States, 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 holds an overweight exposure to credit as we continue to see relative value at this time.

Source: CI Global Asset Management

CI GLOBAL ASSET MANAGEMENT

For more information, please visit ci.com.

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