# CI ENHANCED GOVERNMENT BOND ETF (TSX: FGO, FGO.U)

## MANAGER COMMENTARY

**May 2025**

### MARKET COMMENTARY

Markets recalibrated in May as trade tensions eased but fiscal concerns took center stage. The month began with high anxiety over protectionism, but a series of de-escalatory steps - including a US-EU tariff delay and a 90-day US-China truce - offered temporary relief. A late-month US court ruling also blocked some sweeping tariffs, further softening the near-term threat. However, the broader unpredictability of trade policy continued to weigh on confidence.

With trade fears cooling, fiscal risks emerged as a topical market narrative. In the US, Moody's downgraded the federal credit rating to Aa1, citing a worsening debt outlook and political inaction. The passage of the "One Big Beautiful Bill Act," centered on extending the 2017 tax cuts, underscored concerns about deficit expansion. In Canada, Ontario's budget revealed worsening medium-term fiscal projections tied to tariff-response spending, while the federal government struck a tone of investment-led growth alongside operational restraint.

Central banks held steady in the face of crosscurrents. The Federal Reserve kept rates at 4.25-4.50%, acknowledging rising risks of both inflation and unemployment. While markets still expect some rate cuts this year, Fed officials emphasized caution. The Bank of Canada's May Financial Stability Report ("FSR") flagged rising market and household vulnerabilities. While a cautious easing bias had been signaled, the FSR underscored downside risks that could force further accommodation if trade tensions were to re-escalate.

Bond markets reflected this uncertainty. US Treasury yields rose across the curve, responding to both fiscal anxiety and a diminished likelihood of near-term cuts. Canadian yields climbed more modestly. Meanwhile, corporate credit spreads tightened, and equities rallied, suggesting that investors, for now, remain willing to look through macro headwinds.

Economic data pointed to slowing growth. US GDP was revised to -0.2% in Q1, and Canadian employment softened. Inflation moderated slightly in both countries, though core readings remain elevated. Lower oil prices from OPEC+ supply increases were offset by cost pressures tied to tariffs, leaving the inflation outlook still finely balanced.

### FUND POSITIONING

The Fund underperformed its benchmark during May as relative underweight in credit detracted from performance more than its relative overweight to Canadian government bonds contributed. At the start of the month, the Fund's duration was approximately 6.3 years - modestly less than the benchmark. Our duration positioning, with a bias toward Canadian government bonds (which experienced more contained rate increases compared to the U.S.), helped mitigate the negative impact of rising rates. Throughout the month, roughly two-thirds of our government bond exposure was allocated to Canada. As rates rose, we added duration, increasing government duration from 6 years to 6.3 years by month-end. In response to strong credit market performance, we had modestly increased credit exposure to 13% at the beginning of the month. However, as credit valuations became less compelling, we trimmed exposure at the margin, reducing it to 10%. This remains significantly below the benchmark's approximate 25% credit allocation. We continue to emphasize that this strategy is distinct within our suite of offerings, focusing on government securities to help manage and hedge broader portfolio risk.

### OUTLOOK

The near-term easing in trade tensions has offered relief to markets, but it may prove short-lived. Uncertainty around fiscal sustainability has quickly filled the vacuum, with the US downgrade highlighting the risks of continued deficit expansion amid rising rates. In Canada, fiscal slippage at both the federal and provincial levels will remain a concern.

Central banks are signaling patience, but their path forward is constrained. Sticky inflation and weakening growth point to a complex balancing act, where easing seems unlikely barring clearer data. Market expectations for rate cuts have moderated, and policymakers are likely to remain reactive to evolving conditions.

For investors, the current environment reinforces the need for flexibility. Elevated yields present selective opportunities to re-engage duration, particularly if fiscal concerns deepen. Credit is supported by carry and improving technicals but remains vulnerable to macro disappointments. High volatility in rates and policy require tactical positioning and a clear understanding of downside risks.

As the year progresses, attention will shift to whether fiscal profligacy or slowing growth emerges as the dominant force. Until then, maintaining liquidity and adaptability remains paramount, with a continued focus on navigating shifting policy landscapes and identifying risk-adjusted entry points as volatility creates dislocations.

## PORTFOLIO CHARACTERISTICS

| | |
|---|---|
| Yield to Maturity | 3.20% |
| Average Credit Rating | AAA- |
| Average Duration | 6.47 years |

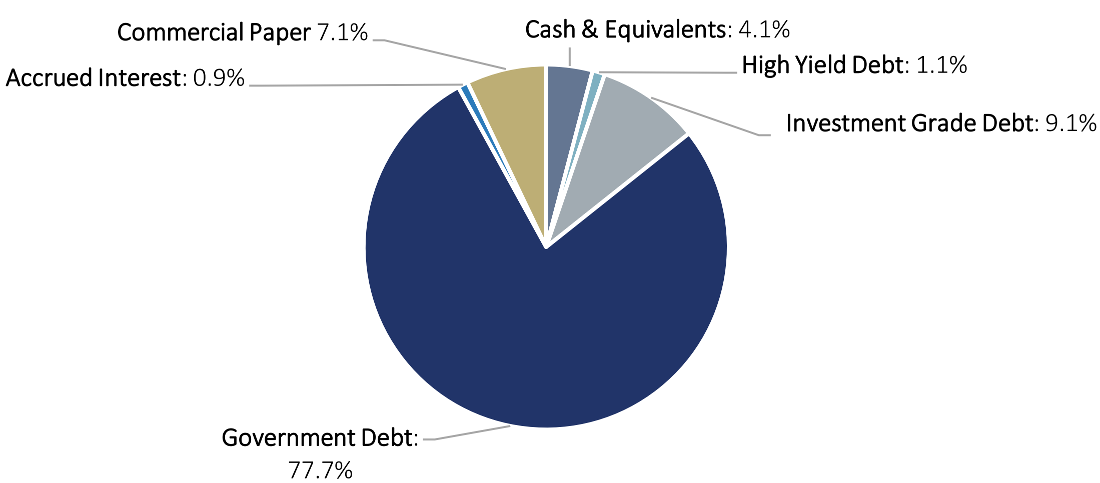
Source: Marret Asset Management Inc., as of May 31, 2025.

## MATURITY BREAKDOWN

| Years to Maturity | Government Bonds | Corporate Bonds |
|---|---|---|
| 0 to 3 | 3.55% | 8.3% |
| 3 to 5 | 11.7% | 0.2% |
| 5 to 10 | 53.5% | 1.5% |
| 10+ | 9.0% | 0.3% |

Source: Marret Asset Management Inc., as of May 31, 2025.

## ASSET CLASS BREAKDOWN




Source: Marret Asset Management Inc., as of May 31, 2025.

## STANDARD PERFORMANCE

| As of May 31, 2025 | 1m | 3m | YTD | 1y | 3y | 5y | Since Common Inception* |
|---|---|---|---|---|---|---|---|
| CI Enhanced Government Bond ETF | -0.73% | -0.70% | 2.09% | 5.52% | 1.81% | -0.59% | 1.52% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| FTSE Canada Universe Bond (CAD) | 0.02% | -0.91% | 1.38% | 7.26% | 3.53% | -0.05% | 1.88% |
| Bloomberg US Agg Bond TR (USD) | -0.72% | -0.29% | 2.45% | 5.46% | 1.49% | -0.90% | 1.60% |

Source: Morningstar Research Inc., as of May 31, 2025. *Common inception: July 26, 2018.

For more information visit www.ci.com or contact your CI sales representative

MARRET ASSET MANAGEMENT INC.

## GLOSSARY OF TERMS

Alpha: A measure of performance often considered the active return on an investment. It gauges the performance of an investment against a market index or benchmark which is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha.

Credit rating/risk: An assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation. Credit risk is the risk of default on a debt that may arise from a borrower failing to make required payment.

Derivatives: A financial security with a value that is reliant upon, or derived from, an underlying asset or group of assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its price is determined by fluctuations in the underlying asset.

Duration: A measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as number of years. The price of a bond with a longer duration would be expected to rise (fall) more than the price of a bond with lower duration when interest rates fall (rise).

Interest rate risk: Refers to the chance that investments in bonds will suffer, as the result of unexpected interest rate changes.

Standard Deviation: A measure of risk in terms of the volatility of returns. It represents the historical level of volatility in returns over set periods. A lower standard deviation means the returns have historically been less volatile and vice-versa. Historical volatility may not be indicative of future volatility.

Volatility: Measures how much the price of a security, derivative, or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

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.

Yield to maturity (YTM): The total expected return from a bond when it is held until maturity – including all interest, coupon payments, and premium or discount adjustments.

## IMPORTANT DISCLAIMERS

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