



Bond (iA)

As at June 30, 2026

Quarterly Analysis

KEY TAKEAWAYS

- We actively adjusted duration throughout the quarter, adding exposure as yields rose before scaling back late in the period to lock in gains and preserve flexibility.
- We added front-end rate exposure with two-year U.S. Treasury futures and increased Canadian and Mexican government bond exposure.
- We are maintaining a cautious bond market outlook as persistent inflation and a hawkish Federal Reserve may keep upward pressure on yields, while stable corporate fundamentals support selective duration and credit positioning.

PORTFOLIO MANAGER



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Fixed Income

PERFORMANCE ANALYSIS

Risk-on backdrop drove a strong performance

Second-quarter performance showed a clear improvement after a challenging first quarter. Our underweight in federal bonds contributed positively, as this segment underperformed. Our allocation to long-term provincial bonds also added value, benefiting from strong outperformance along the curve. In addition, our exposure to Mexican bonds (MBONOs) was a positive contributor, outperforming the Canadian market and enhancing overall returns.

That said, some positions detracted from performance. Our broader underweight in provincial bonds weighed on results, as the sector delivered strong overall returns. Security selection in corporate bonds also affected performance adversely. Finally, our exposure to U.S.-denominated securities was a headwind, as U.S. fixed income markets underperformed their Canadian counterparts.

TOP CONTRIBUTORS (QTD)

- Federal bond underweight
- Provincial bond security selection
- Mexican government bonds

TOP DETRACTORS (QTD)

- Provincial bond underweight
- Corporate bond security selection
- Exposure to U.S.-denominated securities

3-YEAR RISK-RETURN ANALYSIS

Indicator	Fund	Index*
Beta	1.04	1.00
Standard deviation (%)	5.34	5.12
Information ratio	0.96	-
Tracking error	0.44	-

PERCENTILE RANKING (GROSS RETURNS)

Period	Percentile ranking	Nb of funds in category
1 year	73	138
3 years	68	121
5 years	67	107

Source: Morningstar ratings, Canadian Fixed Income Funds

FUND CHARACTERISTICS

Characteristic	Fund	Index*
Number of holdings	412	1972
Yield to maturity	4.06	3.57
Average duration	6.72	7.00
Average coupon	3.87	3.50
Average credit rating	AL	A

* FTSE Canada Universe



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PORTFOLIO ACTIVITY

Tactical duration shifts and front-end positioning

During the second quarter, we made several tactical adjustments to the portfolio in response to evolving market conditions. We added exposure to two-year U.S. Treasuries, taking advantage of attractive front-end yields and support provided by a still-restrictive monetary policy backdrop. We also maintained most of our international bond holdings, reflecting a preference for diversification amid uneven global growth dynamics. On duration, we remained nimble, gradually adding exposure through mid-May as yields moved higher and valuations improved. After the sharp rally—driven in part by increased expectations of an agreement between the U.S. and Iran—we actively reduced duration and locked in gains, preserving flexibility in a still-uncertain environment.

PORTFOLIO POSITIONING

Active duration management

We increased the portfolio's duration in the first part of the second quarter as bond yields moved higher through the end of May, creating more attractive entry points across sovereign curves. When yields reversed sharply in the final two weeks of the month, we used that strength to scale back our duration exposure and lock in gains from the move. Thereafter, we maintained a predominantly short-duration stance, reflecting a macro backdrop in which growth continued to surprise to the upside while inflation in the United States remained above target. Against this backdrop, the Federal Reserve's continued hawkish bias reinforces our cautious positioning, as we aim to protect against further upward pressure on yields while preserving flexibility.

MARKET OUTLOOK

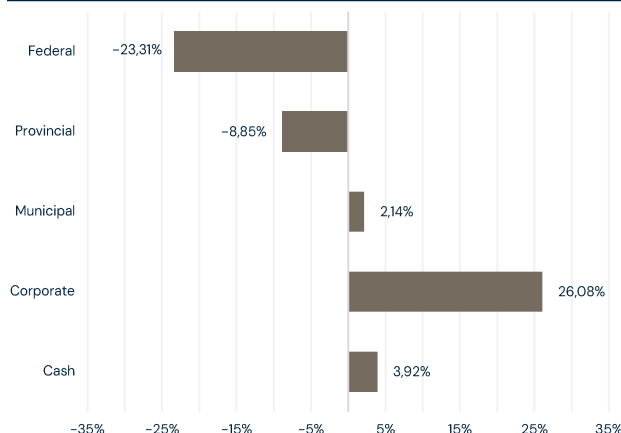
Hawkish Fed, diverging growth, and yield pressures

We are maintaining a cautious outlook on bond markets, with volatility likely to persist in the near term. The recent signing of a 60-day agreement between the United States and Iran provides a temporary easing of geopolitical tensions, yet uncertainty remains beyond this short window. The U.S. economy continues to show resilience, with inflation still above target, reinforcing a more hawkish stance from the Fed under its new Chair, whose policy bias and messaging are contributing to upward pressure on yields and a higher terminal-rate narrative. In contrast, the Canadian economy appears more fragile amid uncertainty caused by the renegotiation of CUSMA. Against this backdrop, we see further upward pressure on bond yields, while expecting corporate credit spreads—despite being relatively expensive—to remain broadly stable, supported by solid fundamentals.

SIGNIFICANT TRANSACTIONS (Q2 2026)

Transaction	Rationale
Nimble duration positioning during the quarter	Volatility in bond yields provided several opportunities to adjust our interest rate risk exposure.
BOUGHT CBOT 2-year U.S. Treasury Notes	To increase overall portfolio yield with AAA-rated government securities.
BOUGHT 7-year MBONO versus 4-year MBONO	To take advantage of the steepening of the Mexican yield curve.

SECTOR DEVIATIONS



TOP 5 HOLDINGS

Holding	Type of issuer	Weight (%)
iA Canadian Corporate Bond Fund	Fixed income	21.86
Montreal Exchange 5-year Canadian Bond Future March 2031	Futures	8.94
Government of Canada, 3.00%, 6-1-2034	Federal government	6.42
Government of Canada, 3.25%, 6-1-2036	Federal government	5.88
CBOT 2-year U.S. Treasury Note Future June 2028	Futures	5.17

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