



Bond (iA)

As at December 31, 2025

Quarterly Analysis

KEY TAKEAWAYS

- Overweight positions in corporate and municipal bonds drove a strong fourth-quarter performance despite rising yields and futures headwinds.
- Our strategy continued to underweight duration and overweight credit, focusing on short-term, high-quality issuers for flexibility.
- We remain cautiously optimistic about 2026 amid geopolitical risks, policy uncertainty, and expected bond market volatility.

PORTFOLIO MANAGER



Alexandre Morin CFA

Senior Director, Portfolio Manager,
Fixed Income

PERFORMANCE ANALYSIS

Strong credit positioning drives fourth-quarter performance despite rate challenges

The fund's performance benefitted from several supportive factors in the last quarter of the year. Cash holdings were helpful as bond yields rose during the quarter, while our underweight in federal bonds added value, given their underperformance versus the index. Strong results also came from our overweight in corporate bonds and strategic positioning in municipal bonds, particularly non-rated Quebec issuers with maturities under five years.

Most of our corporate exposure is concentrated in securities with maturities below 10 years, which delivered solid relative performance. On the downside, long-term federal and provincial holdings detracted from returns as their yields climbed. Additionally, futures positions in Canadian and U.S. markets were unfavourable, offsetting some credit gains. Over all, the positives outweighed the headwinds, reflecting a disciplined approach amid market volatility.

TOP CONTRIBUTORS (QTD)

- Corporate bonds
- Municipal bonds
- High-yield ETF

TOP DEDUCTORS (QTD)

- Longer-dated federal bonds
- Longer-dated provincial bonds
- U.S. Treasury and Canadian market futures

3-YEAR RISK-RETURN ANALYSIS

Indicator	Fund	Index*
Beta	1.03	1.00
Standard deviation (%)	5.72	5.56
Information ratio	1.05	-
Tracking error	0.46	-

PERCENTILE RANKING (GROSS RETURNS)

Period	Percentile ranking	Nb of funds in category
1 year	75	147
3 years	70	132
5 years	59	117

Source: Morningstar ratings, Canadian Fixed Income

FUND CHARACTERISTICS

Characteristic	Fund	Index*
Number of holdings	414	1908
Yield to maturity	4.05	3.54
Average duration	6.53	6.94
Average coupon	3.95	3.46
Average credit rating	AL	A

* FTSE Canada Universe



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PORTRFOIO ACTIVITY

We continued to underweight duration and overweight credit

In the fourth quarter, we implemented key strategic adjustments to align the portfolio with shifting market dynamics. We increased corporate bond exposure, prioritizing high-quality issuers to enhance yield and strengthen credit positioning. Concurrently, we exited our TIPS position in favour of 10-year Canadian bonds after October's Federal Reserve meeting, which eased concerns about its independence from the White House. Early in the quarter, we also reduced interest rate risk by shortening duration as we judged bond yields to be low, considering that the economy was still performing well. These moves improved the portfolio's credit profile while preserving flexibility to respond to potential changes in monetary policy.

PORTRFOIO POSITIONING

We remain overweight spread products and underweight duration

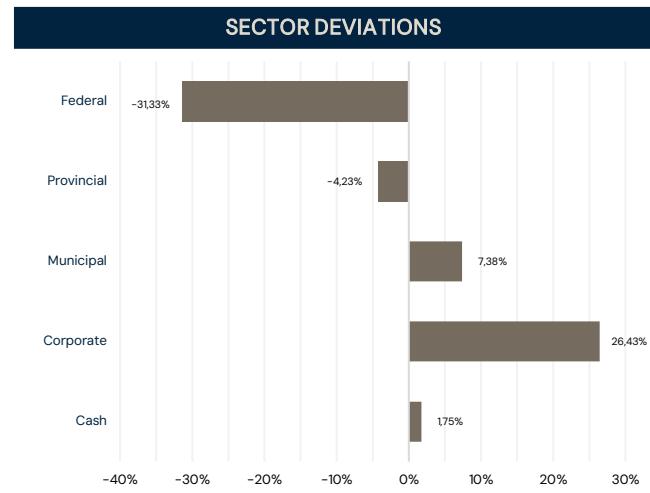
We closed 2025 with a prudent approach to interest rate risk, keeping our exposure to long-term bonds limited on both sides of the border. Our focus remained on credit strategies, particularly corporate bonds, favouring shorter-term, investment-grade securities. In the United States, we maintain high-yield exposure with an ETF, complemented by select Canadian issuers. The portfolio also carries a modest allocation to provincial bonds versus the benchmark, targeting higher-yielding issuers and longer maturities. We also hold a significant overweight in municipal bonds, with a preference for non-rated issues from Quebec municipalities. Looking ahead, we expect bond yields to remain volatile, offering flexibility to adjust our interest rate positioning as market conditions evolve.

MARKET OUTLOOK

Uncertainty and volatility will prevail in 2026

The bond market outlook for 2026 reflects a complex interplay of global and domestic factors. Heightened geopolitical risks, including U.S. involvement in Venezuela, could inject volatility into markets. Additionally, the Supreme Court's coming decision on Lisa Cook's case may redefine the balance of power between the Federal Reserve and the White House, adding policy uncertainty. USMCA renegotiations pose risks to trade flows and the Canadian economy, while U.S. mid-term elections could delay fiscal initiatives. The Bank of Canada is expected to keep rates steady, supporting Canadian yields, while the Federal Reserve faces pressure to ease policy. This divergence may favour Canadian bonds for stability, while U.S. Treasuries could see modest gains if cuts occur. Over all, cautious optimism prevails, tempered by geopolitical and policy risks.

SIGNIFICANT TRANSACTIONS (Q4 2025)	
Transaction	Rational
SOLD 10-year Treasury Inflation Protected Securities (TIPS)	The Fed's October meeting eased concerns about its independence from the White House, making TIPS a less attractive investment.
SOLD long-term government securities (Canada and U.S.)	We decided to reduce our interest risk exposure because we found bond yields were low, considering that the economy is still performing better than expected.
Increased exposure to corporate bonds	Even though corporate bond risk premiums are low, we do not expect any major sell-off in the coming months.



TOP 5 HOLDINGS		
Holding	Type of issuer	Weight (%)
iA Canadian Corporate Bond Fund	Fixed income	22.28
Montreal Exchange 5-year Canadian Bond Future, Sep. 2030	Futures	11.53
Province of Ontario, 3.95%, 12-2-2035	Provincial government	4.01
Government of Canada, 2.50%, 12-1-2032	Federal government	3.83
Government of Canada, 3.25%, 12-1-2035	Federal government	3.76

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