Mawer Canadian Bond Fund, Series A

Q1 2024 | Performance Commentary

Market Overview

The first quarter of 2024 saw a divergence in fortunes between equity and fixed income markets; equities continued surging forward thanks to resilient economic data and relatively strong earnings while fixed income had a harder go of it due to rising bond yields.

Reported growth in Canada and the U.S. came in surprisingly strong and while key inflation measures dipped marginally in Canada versus a small rise in the U.S., both countries still have some work to do to get inflation down to the long-term targets.

Canadian 10-year yields rose by almost 40 bps, ending the quarter at 3.47% and investment grade credit spreads grinded tighter as credit markets continued exhibiting extraordinary levels of indifference to global events and their associated risks.

Performance Commentary

The portfolio underperformed the benchmark during the quarter.

Duration had a positive contribution to relative performance as we were short duration in the period and yields moved up across the curve. Our curve positioning also added to relative performance as our overweight in the 10-year part of the curve and underweight in the 30-year paid off as the shape of the yield curve started to normalize.

Our sector exposure modestly contributed to relative outperformance driven by our positioning within corporates. Corporates spreads tightened materially and by more than provincials and we have been benefitting from being overweight the steeper part of the spread curve.

Security selection decisions added to relative performance as we continue to invest in issuers that have conservative leverage and strong credit fundamentals. This was especially true for our bank bail-in, pipeline, and infrastructure holdings.

Looking Ahead

What a difference a few months can make. Three months ago, investors seemed hyper-focused on imminent rates cuts here at home and in the U.S. Fast forward to today and the number of expected cuts has essentially been chopped in half. Despite this meaningful change in market expectations, we remain more hawkish than consensus and sceptical that central banks will take as much monetary policy action by the end of the year as the markets have priced in, particularly in the U.S. where growth and inflation have been running higher than in Canada. The big caveat to this view is if we see an employment shock which would be a clearly recessionary impulse and prompt a vigorous central bank policy response.

Credit markets do not seem to be pricing in a recession given how tight credit spreads are by historical standards. The disconnect between the rates markets pricing in meaningful cuts and credit investors demanding modest compensation for assuming credit risk certainly gives us pause. We remain wary of credit valuations at these levels and as such are positioned conservatively, trying to ensure an appropriate margin of safety in our credit exposures and leaning into our stochastic approach to prepare for a variety of scenarios.

Canadian Bond Fund

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Performance Summary[1] (%)
As of March 28, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	-1.3	-1.3	1.8	-2.0	-0.1	1.4	4.9
BENCHMARK	-1.2	-1.2	2.1	-1.5	0.3	2.0	5.9

Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	6.3	-12.0	-3.0	8.7	6.4	0.8	1.3	0.9	3.1	7.8
BENCHMARK	6.7	-11.7	-2.5	8.7	6.9	1.4	2.5	1.7	3.5	8.8

[1]Performance figures are net of management fees and operating expenses. Periods greater than one year are annualized. Performance figures are in Canadian dollar terms.
[2]Mawer Canadian Bond Fund Series A Inception: June 14, 1991

Selections from Mawer's Art of Boring blog and podcast:

Quarterly Update | Q1 2024 | EP152
As markets continue on a dynamic trend, fixed income portfolio manager Crista Caughlin discusses the economy and factors that drove markets in the first quarter of 2024. In addition, the reemergence of a more typical correlation pattern between stocks and bonds, getting central banks off the sidelines, and the concern that markets may be being too complacent.

Why Position Size Matters in Investing | EP151
Portfolio Manager Manar Hassan-Agha discusses the importance of position sizing in investing and how factors like behavioural biases, market structures, and optimal betting strategies under the Kelly Criterion can impact returns at varying position weights.

The Power of Latent Earnings
In today's markets, most investors recognize that smaller start-up companies need to reinvest heavily in their businesses to accelerate growth and capture market share and scale, accepting lower profitability today for greater potential profits tomorrow.

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Benchmarks:

FUND	BENCHMARK
Mawer Canadian Bond Fund	FTSE Canada Universe Bond Index

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