

Mawer Canadian Bond Fund, Series A

Q2 2024 | Performance Commentary

Market Overview

After a slow start to the year due to rising bond yields, the second quarter was more favourable to fixed income investors as the FTSE Canada Universe bond index returned 86 basis points.

In Canada and the U.S., growth remains positive although Canada continues to lag its neighbours south of the border. Progress was also made here at home on the inflation front as all major measures fell well within the Bank's 1%-3% target range, though headline inflation and two of the three core Bank of Canada inflation measures did tick higher at end the quarter.

All told, the longer-term trend of moderating inflation remains intact but the central bank's job is not done yet. As a result, market expectations for future interest rate cuts were reduced as the U.S. Federal Reserve and Bank of Canada grappled with stubborn inflation. Nonetheless, central bankers in Canada diverged from their U.S. peers by kicking off their policy easing cycle with a 25-basis point cut to the overnight rate in June. Markets are also putting decent odds on another couple of cuts through the rest of 2024 in Canada. However, headline and core inflation remain above the 2% midpoint of the Bank of Canada's long-term target and the Bank's messaging to market participants has stressed that future policy action will be measured and data dependent.

Canadian 10-year yields were flat on the quarter and investment grade credit spreads moved modestly wider. Credit markets remained very well behaved considering a slowing economy and plenty of headline risks.

Performance Commentary

The portfolio marginally underperformed the benchmark during the quarter.

Given long-term yields were little changed in the quarter, our modestly short duration position had minimal relative return impact. Our curve positioning remained overweight in the 10-year part of the curve and underweight in the 30-year. This modestly detracted value as the curve re-steepening from the last few quarters stalled out over the period.

As has been a theme for a number of quarters now, our sector exposure contributed to relative outperformance driven by our positioning within corporates. Despite corporate spreads modestly widening, we added value through owning higher carry securities within our corporate exposure. The impact of security selection was neutral.

Looking Ahead

This quarter marked the start of the next phase of this cycle, one where the Bank of Canada now officially has a bias towards easing policy rates. The questions remain when and at what pace will we see further rate cuts. Our current view is that inflation will remain sticky, and as a result, cuts could be slower than market consensus.

Credit valuations remain near cycle lows despite a clear slowing of the economy. Perhaps central banks have perfectly threaded the needle and achieved the much talked about soft landing; we remain skeptical. Even if this turns out to be the case, credit valuations on average appear rich and so we remain conservatively positioned. Where we can find credits with decent valuations and a sufficient margin of safety, we'll gladly clip those coupons until we think the compensation for taking on greater risk is at appropriate levels.

Canadian Bond Fund

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Performance Summary¹ (%)

As of June 28, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	-0.6	0.7	3.4	-2.2	-0.4	1.3	4.9
BENCHMARK	-0.4	0.9	3.7	-1.8	-0.1	1.9	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

¹Performance figures are net of management fees and operating expenses. Periods greater than one year are annualized. Performance figures are in Canadian dollar terms.

²Mawer Canadian Bond Fund Series A Inception: June 14, 1991

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

[Quarterly Update | Q2 2024 | EP161](#)

Portfolio Manager Crista Caughlin discusses the economy and factors that drove markets in the second quarter of 2024.

Navigating the U.S. Mid-Cap Landscape: Resilience Amid Uncertainty | EP160

In this episode, Portfolio Manager Jeff Mo makes the case for investing in U.S. mid-cap equities, highlighting the country's strong business environment, large domestic market, and GDP growth. He discusses current market trends, including artificial intelligence, and his team's risk management evaluation, especially with a pivotal U.S. election looming on the horizon.

From Buy to Bye: Sell Discipline and Overcoming Behavioral Biases | EP159

Portfolio Manager Jeff Mo discusses common behavioral biases that can hinder clear sell decisions, and the tools, such as checklists and trigger points, that can help slow down emotional thinking.

Disclaimer

Opinions and Forecasts:

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Benchmarks:

FUND	BENCHMARK
Mawer Canadian Bond Fund	FTSE Canada Universe Bond Index

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