

Mawer Canadian Bond Fund, Series A

Q3 2022 | Performance Commentary

Market overview

The brief bond rally in July was a distant memory by September after coordinated rate hikes by many central banks to address elevated inflation. The Federal Reserve has been unequivocal about its plan to fight inflation; ultimately, how far and how fast the Fed will go has been a key factor driving markets. The Bank of Canada has also remained committed to ensuring that higher prices do not get entrenched into expectations—over the quarter it lifted the overnight rate by 175 basis points and the Federal Reserve by 150 basis points.

We saw the front end of the yield curve rise significantly, reflecting the tightening of monetary policy, while the long end of the curve remained unchanged, resulting in the continuation of curve inversion. Investment grade credit spreads continued to move wider with corporate spreads underperforming provincials.

Economic growth continued to slow and Canadian jobs data appeared to be weaker as we saw the employment levels unexpectedly fall for a third straight month in August. In addition, there was a continued decline in the housing market and global PMIs have recently fallen into contraction territory.

Meanwhile, headline inflation eased slightly in Canada but remained elevated as September Canadian CPI was up 6.9% from a year ago. According to Bank of Canada's latest business outlook survey, firms' short-term inflation expectations eased in Q3 but remained above 2%. From the survey, the number of businesses that are planning to hire declined due to signs of weaker demand. Businesses with sales linked to housing activity and household consumption expected weaker growth due to rising interest rates. Amid the weaker tone in credit, banks, telecommunications, and utilities came to the primary market over the quarter.

Performance commentary

Over the third quarter, the Mawer Canadian Bond Fund performed in line with its benchmark. The front end of the yield curve rose significantly as Bank of Canada continued to deliver record rate hikes, resulting in a deeply inverted yield curve. In general, securities with longer duration performed better during the quarter.

The Fund's relative performance was driven by both duration and yield curve decisions. The Fund's yield curve positioning contributed positively to relative performance as the curve continued to flatten over the period, and security selection slightly contributed driven by corporates, particularly our bank and energy investments.

Looking ahead

As we move forward, we will continue to keep a close eye on economic data that may signal how central banks will respond in the coming months. Supply chains have improved, and commodity prices have moderated. Some companies also noted elevated inventory levels in the quarter, a sign that demand may be softening. The Bank of Canada has remained committed to ensuring that higher prices do not get entrenched into expectations and we remain of the view that the Bank of Canada and the Federal Reserve will continue tightening policy as the elevated inflation numbers are less likely to come down in the near term. Given the amount of household debt that exists in Canada, we think Canada structurally requires lower rates than the US.

As Central Banks continue to be focused on inflation at the expense of growth, we have already seen yield curves become deeply inverted and we expect the yield curve to remain inverted in the near term. The Fund continues to be overweight spread products with an emphasis on businesses that can withstand economic shocks. We continue to identify areas of market dislocation and seek a variety of portfolio construction opportunities across rates and sectors enabled by our proprietary fixed income research engine.

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Given the macroeconomic headwinds facing the markets, our path continues to be playing the plan: following our investment process and the fundamentals of the businesses we invest in. We continue to research the relationship of growth and policy to develop a variety of scenarios and financial market outlooks. Our portfolio construction process combines both our top down and bottom-up research insights under a probabilistic framework thereby enabling us to remain resilient and responsibly steward our clients' investments through uncertainty.

Performance summary¹ (%)

As of September 30, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	(12.2)	0.5	(11.0)	(2.9)	0.2	1.0	5.0
BENCHMARK	(11.8)	0.5	(10.5)	(2.5)	0.7	1.7	6.0

Calendar Year, as of December 31:

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
FUND	(3.0)	8.7	6.4	0.8	1.3	0.9	3.1	7.8	(2.2)	3.5
BENCHMARK	(2.5)	8.7	6.9	1.4	2.5	1.7	3.5	8.8	(1.2)	3.6

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 | Q3 2022 | EP118](#)

Market swings, central bank moves, and rising interest rates. A look at Q3.

[An energy-fuelled debate: Are renewables actually becoming cheaper? | EP114](#)

The team debates the thesis that renewables are becoming "cheaper" than traditional energy sources, unpacks why the ultimate cost to the end consumer shouldn't be missing from the conversation, and delves into the investment implications.

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Disclaimer

Opinions and Forecasts:

This report includes certain statements that are "forward looking statements". All statements, other than statements of historical fact, included in this report that address activities, events or developments that the portfolio advisor, Mawer Investment Management Ltd., expects or anticipates will or may occur in the future, including such things as anticipated financial performance, are forward looking statements. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective" and similar expressions are intended to identify forward looking statements. These forward looking statements are subject to various risks and uncertainties, including the risks described in the Simplified Prospectus of the Fund, uncertainties and assumptions about the Fund, capital markets and economic factors, which could cause actual financial performance and expectations to differ materially from the anticipated performance or other expectations expressed. Economic factors include, but are not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

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Benchmarks:

FUND	BENCHMARK
Mawer Canadian Bond Fund	FTSE Canada Universe Bond Index

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