

Mawer Canadian Bond Fund, Series A

Q3 2024 | Performance Commentary

Market Overview

It was another strong quarter for fixed income investors as falling yields and well-behaved credit spreads made for a positive return backdrop.

Yields were down across the curve with those in the front end falling more than the belly and long-end as the market recalibrated towards a more dovish monetary policy over the coming quarters. This has led to some dis-inversion of the yield curve, otherwise known as a term premium, whereby investors demand more compensation for longer-dated securities.

Credit markets remained very well-behaved with investment grade spreads in Canada being largely unchanged over the quarter despite a slowing economy and plenty of headline risks. The new issue market continued to be highly active with companies pre-funding a lot of upcoming maturities. It appears like many companies want to get ahead of the U.S. election cycle and the expected ensuing volatility.

Under the weight of previous central bank interest rate increases, global growth continued to slow. But in September, the U.S. Federal Reserve made its first interest rate cut this cycle, joining the Bank of Canada and other central banks who had already begun reducing rates due to retreating inflation. The Bank of Canada also cut their target rate 25 basis points bringing it to 4.25%. This has provided some relief for certain households and businesses who have been struggling with a higher interest rate environment. While the path of inflation and interest rates are never certain, it does seem we are now clearly on the easing side of this cycle.

Performance Commentary

The portfolio outperformed the benchmark during the quarter.

Given long-term yields were down across the curve in the quarter, our modestly short duration position had a small negative impact on relative performance. Our curve positioning remained overweight in the 10-year part of the curve and underweight in the 30-year. This added significant value as long-term yields fell less than shorter yields.

As has been a theme for a number of quarters now, our sector exposure contributed to relative outperformance driven by our positioning within corporates adding value through an overweight to higher carry/higher rolldown shorter dated securities within our corporate exposure. The impact of security selection was neutral.

Looking Ahead

The Federal Reserve kicked off their rate cutting campaign which now confirms a global trend towards easing policy rates. Much like last quarter, the questions remain when and at what pace will we see



further rate cuts. Our current view is that inflation will remain stickier than market consensus and so cuts will be slower than market consensus as a result.

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 in overall risk-adjusted credit exposure with a focus on higher quality companies. We will gladly clip those coupons with an insulated portfolio position until we think the compensation for taking on lower quality credit is at appropriate levels.

Performance Summary¹ (%)
As of September 30, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	4.2	4.8	12.9	-0.5	0.3	1.7	5.0
BENCHMARK	4.3	4.7	12.9	-0.1	0.6	2.3	6.0

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 | Q3 2024 | EP168](#)

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

[Recession Fears and Credit Spreads: A Comprehensive Fixed Income Update | EP164](#)

In this episode, Crista Caughlin, lead Portfolio Manager of the Canadian Bond Strategy, and Brian Carney, lead Portfolio Manager of the Global Credit Opportunities Strategy, provide their thoughts on recent economic data releases, a shift in central bank language, and recent market volatility. They delve into new issuance activity in the U.S. and Canada, widening spreads in the investment-grade and high-yield markets, and current portfolio positioning. The conversation concludes with an update on the growth and expansion of Mawer’s fixed income team.

[Skyscrapers and Storefronts: Insights on the Commercial Real Estate Market in 2024 | EP165](#)

In this episode of the podcast, credit analyst Curtis Elkington provides a comprehensive overview of the \$50 trillion global commercial real estate market. He covers the current headwinds facing various property sectors, such as pandemic-induced challenges in the office sector and touches on the surprising resilience of the retail segment. Elkington sheds light on the complexities of the commercial

mortgage-backed securities market and details the credit analysis process his team uses to evaluate potential investments with examples.

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Benchmarks:

FUND	BENCHMARK
Mawer Canadian Bond Fund	FTSE Canada Universe Bond Index

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