

Mawer Canadian Bond Fund, Series A

Q4 2024 | Performance Commentary

Market Overview

Fixed income returns in the fourth quarter were very modestly negative as the benefits of tightening credit spreads were offset by rising long bond yields. Yields in the short end fell in Canada as slowing economic data and well contained inflation led the Bank of Canada to make two 50 basis points cuts to the overnight rate. Taken together, falling short end yields and rising longer yields made for a steepening of the yield curve overall.

The Bank of Canada cut the overnight interest rate by 175 basis points in 2024. In the U.S., the Federal Reserve cut a more modest 75 basis points, a reflection of the relative strength of the U.S. economy and less of a slowdown in inflationary pressures seen there. Additionally, the election of Trump and Republican majorities in both the Senate and Congress supported improved investor confidence, particularly regarding potential policies around deregulation, corporate tax reform, and infrastructure investment. At the Fed meeting in December, the central bank's communication suggested fewer future cuts than were previously priced in by the market.

Once again, credit markets remained very well-behaved with investment grade spreads tightening over the quarter and new issuance remaining robust.

Performance Summary

The portfolio performed in line with the benchmark during the quarter.

With overall yields up slightly in the quarter, our short duration position added value. The biggest detractor to relative performance was our yield curve positioning. Our overweight was in the 10-year part of the curve and 10-year bond yields saw some of the biggest increases in yields amongst long bonds, modestly flattening the 10-30 year and affecting performance.

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 dates securities. The impact of security selection was also beneficial with Province of Quebec and pipeline corporate bonds adding the most value across the portfolio.

Looking Ahead

There are many headwinds and uncertainties facing the Canadian economy: elevated debt levels, potentially slowing population growth, upcoming mortgage renewals at higher rates than 2020 pandemic lows, continued weak productivity, political uncertainty with U.S. trade relations, and now an

upcoming Federal election. Against this backdrop, we think it is now more likely that the Bank of Canada has to cut below the neutral rate to support growth and employment. However, we are mindful that U.S. growth has been strong which may keep rates higher in the U.S. and this can impact how much other central banks are able to cut.

On the credit side, valuations remain on the richer end of fair value despite the clear deceleration in the Canadian economy. As such, we remain conservatively positioned in overall risk-adjusted credit exposure and patiently wait for better levels before adding to our risk position.

Performance Summary¹ (%)
As of December 31, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	4.0	-0.2	4.0	-0.9	0.5	1.5	4.9
BENCHMARK	4.2	0.0	4.2	-0.6	0.8	2.0	5.9

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	4.0	6.3	-12.0	-3.0	8.7	6.4	0.8	1.3	0.9	3.1
BENCHMARK	4.2	6.7	-11.7	-2.5	8.7	6.9	1.4	2.5	1.7	3.5

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 | Q4 2024 | EP178](#)

We discuss 2024's economic landscape and what to expect in 2025, with Crista Caughlin, lead portfolio manager of the Mawer Canadian bond strategy. Crista highlights U.S. and Canadian growth trends, central bank rate adjustments, housing market dynamics, equity and fixed-income performance, and political uncertainties. She also discusses Mawer’s asset allocation strategy, balancing risks with opportunities amidst shifting fiscal policies, trade tensions, and global economic developments heading into 2025.

[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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