# Mackenzie Canadian Short Term Income Fund

## Fund snapshot

| | |
|---|---|
| Inception date | 11/24/2006 |
| AUM (millions in CAD) | 281.9 |
| Management fee | 0.40% |
| MER | 0.61% |
| Benchmark | FTSE Canada Short Term Bond |
| CIFSC category | Canadian Short Term Fixed Income |
| Risk rating | Low |
| Lead portfolio manager | Konstantin Boehmer |
| Investment exp. since | 2003 |

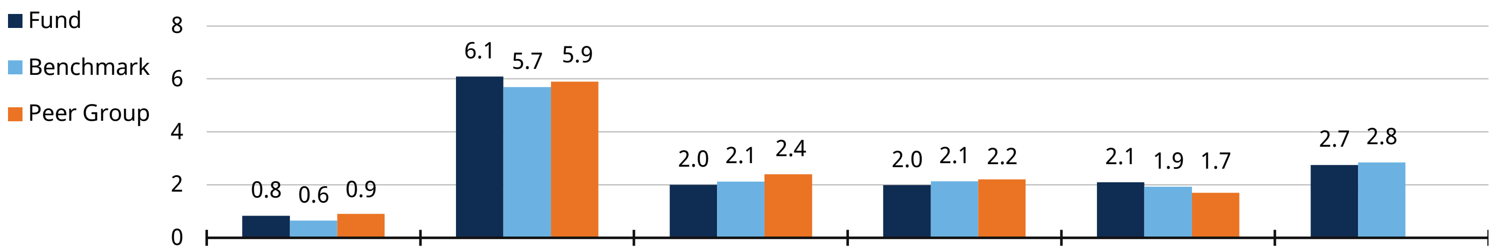
## Strategy overview

• An actively managed, flexible short duration fixed income strategy.

• The objective is to generate income consistent with a short duration mandate by utilizing an expanded universe of high-quality, shorter-term securities including investment grade Canadian and foreign government and corporate bonds, residential first mortgages, and non-investment grade securities.

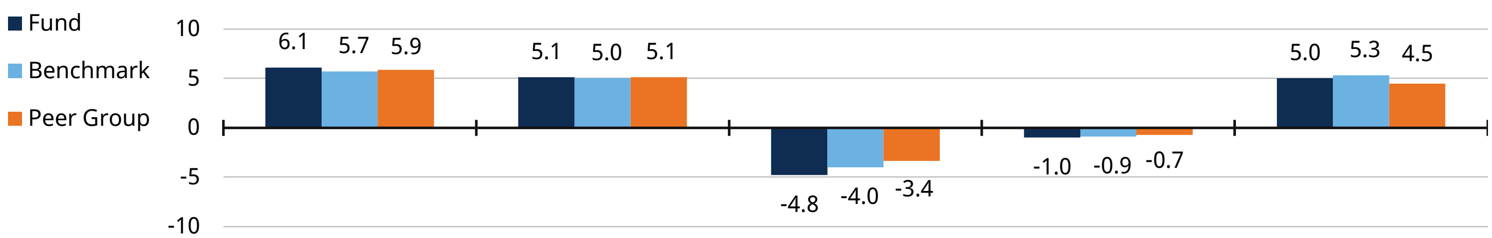
• The Fund maintains an overall credit rating of BBB or higher. This Fund can invest up to 30% in foreign securities and foreign currencies can be hedged back into Canadian dollars

## Trailing returns %




| | 3 Mth | 1yr | 3Yr | 5Yr | 10Yr | SI |
|---|---|---|---|---|---|---|
| Excess return | 0.2 | 0.4 | -0.1 | -0.1 | 0.2 | -0.1 |
| % of peers beaten | 56 | 66 | 35 | 37 | 73 | NA |

## Calendar returns %




| | 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| Excess return | 0.4 | 0.1 | -0.8 | -0.1 | -0.3 |
| % of peers beaten | 66 | 50 | 18 | 52 | 52 |

## Portfolio characteristics

| Ratios & metrics | Portfolio | Benchmark |
|---|---|---|
| Fund Avg Yield | 3.7 | 3.2 |
| Fund Mod. Dur | 2.7 | 2.7 |
| Fund Rating | A | AA |
| Average Price | 100.3 | 100.6 |
| Average Coupon | 3.7 | 3.3 |
| Average Term | 2.8 | - |

## Asset allocation

| Asset | Portfolio | Benchmark |
|---|---|---|
| Corporate | 64.8 | 37.3 |
| Provincial + Municipal | 16.7 | 17.1 |
| Federal | 16.7 | 45.6 |
| Cash & Equival. + WC | 1.8 | - |

## Performance metrics (3 year trailing)

| Metrics | Portfolio | Benchmark |
|---|---|---|
| Standard Dev. | 3.0 | 3.1 |
| Sharpe Ratio | -0.6 | -0.6 |
| Tracking Error | 0.6 | - |
| Information Ratio | -0.2 | - |
| Alpha | -0.2 | - |
| Beta | 1.0 | - |
| Upside Capture (%) | 96.4 | - |
| Downside Capture (%) | 97.7 | - |

## Geographic allocation

| Region | Weight |
|---|---|
| North America | 99.4 |
| Europe | 0.4 |
| LATAM & Caribbean | - |
| Other | 0.2 |

## Maturity breakdown

| Bucket | Portfolio | Benchmark |
|---|---|---|
| 0 to 3 | 56.9 | 54.0 |
| 3 to 7 | 42.6 | 46.0 |
| 7 to 12 | 0.2 | - |
| 12+ | 0.3 | - |

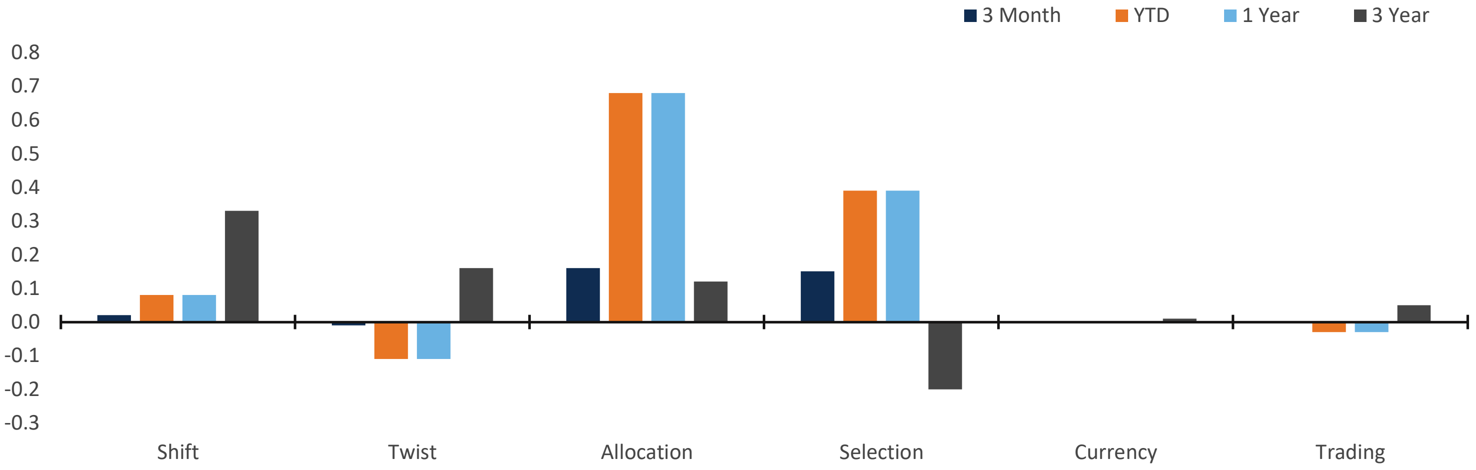
## Currency exposure

| Currency | Gross | Net |
|---|---|---|
| CAD | 98.9 | 100.0 |
| USD | 1.0 | - |
| Other | 0.1 | - |

## Credit breakdown

| Rating | Portfolio | Benchmark |
|---|---|---|
| AAA | 16.8 | 50.5 |
| AA | 21.3 | 18.1 |
| A | 31.8 | 18.5 |
| BBB | 28.5 | 12.9 |
| BB | 1.0 | - |
| B | 0.1 | - |
| CCC & Below | 0.0 | - |
| NR | 0.4 | 0.8 |

## Attribution




## Market Overview

## Commentary

**Market Overview**

Global yields, led by US Treasuries, were generally one way higher throughout the fourth quarter, thanks to three key drivers: the increase in term premia, expectations of continuing US economic exceptionalism, and of course, Trump's election and the so-called "Trump Trades" that ensued. As a result, US 10yr yields were higher by almost 100bp over the quarter, while the 2s-10s curve steepened by 28bp. Longer duration was not overly loved, with the market seeing the risks of US fiscal spending becoming even more unhinged under a Trump administration and the so-called "red sweep."

Exceptional US economic growth – and continued expectations of exceptional growth – meant markets needed to recalibrate yield levels from where they were late-September. Throughout the quarter we saw the final third-quarter, as well as the fourth-quarter, US GDP Forecast Now estimates continue to print almost stubbornly-high, especially versus other global economies. That in turn, also required markets to recalibrate Fed easing expectations for 2025: at the end of September 2024, markets were pricing an end-2025 Fed funds rate of 2.90%; by the end of the fourth quarter, that had risen to 3.90% - about the same relative increase as the 10yr yield over the quarter – with the market becoming ever-more comfortable with the notion the US nominal neutral interest rate was materially higher than circa 3%.

Of course, we would be remised if we did not speak about the impact of Trump's acceleration in the polls and to an even further extent in the betting markets (like Polymarket) in September and October which clearly drove a number of "Trump Trades" including the reflation trade, the bullish equity trade (on the notion of faster nominal GDP, lower taxes and higher corporate earnings), and the long USD trade (repatriation, higher for longer) – just to name a few.

As we turn the page in the early days of the new year and write pre-inauguration, it appears a lot of those themes are poised to drive markets into the first-quarter of 2025 and possibly beyond. Our view for a while would be tariffs, or the threat of imposing tariffs, would lead the policy mantra and that indeed appears to still be the case, along with immigration, and deregulation in both the financial and energy sectors. But the rise in yields from September is now getting to a point where any further climb higher could prove to be a hinderance on valuations for other asset classes, particularly higher beta assets, and the risk of a cross-asset correction looks more likely now than it did three months ago. We have long expected cross-asset volatility to increase, and we are now at the point in the cycle where not only has that happened, but also further increases are more likely.

It goes without saying that Canadian assets are clearly at risk under the new Trump administration with talk of a "51st state" and "economic warfare" to achieve it. Canada's current political situation only amplifies the risk, not necessarily Trudeau in or out as PM, but prorogation of parliament means all legislation – including the $1.3bn border security bill that was cobbled together after Trudeau's visit with Trump in Florida late last year – essentially needs to be tabled again when parliament reconvenes. To us, this is a risk for tariffs getting threatened or implemented given the hawks advising Trump, and there is likely nothing to be done on the Canadian border security front until late-March - at the earliest with parliament out.

Even a 10% across-the-board tariffs on all Canadian goods imported into the US would have a significant impact on the Canadian economy, likely at least ~1% of real GDP during the first year. A 20-25% tariff implementation would clearly be recessionary in the best of times – and the Canadian economy is far from currently operating in the best of times. Market pricing for the Bank of Canada at 60bp for 2025 at time of writing continues to look underpriced – as it has for a long while – and we would not be surprised if we saw the Bank's policy rate hit 2.25% or lower, or more than 100bp from current pricing.

**Canadian Short Term Income Fund**

US political events dominated fixed income markets in Q4 2024. Despite initial excitement for Kamala Harris after President Biden stepped aside, polling and betting markets shifted towards a Trump/Republican win, correctly predicting the November election outcome. Markets focused on the implications of a Trump win, particularly regarding deficit spending and tariffs.

Concerns over unfunded tax cuts drove yields higher, steepening the curve. The 5y, 10y, and 30y UST rose 87.2bps, 83.8bps, and 71bps respectively, while the 2y UST rose 62.8bps. Tariff concerns impacted currency markets, with the USD performing well against currencies like the Mexican Peso and Canadian Dollar.

Equities performed well in anticipation of continued interest rate cuts by the US Federal Reserve until December. The Fed cut rates by 25bps but indicated that further cuts would depend on inflation data, causing a spike in cross-asset volatility and a selloff in risk assets, led by equities.

Canadian markets, usually influenced by US counterparts, showed some divergence. Longer-end yields in Canada rose (5s, 10s, and 30s increased by 22bps, 28bps, and 21bps), while 2y yields remained unchanged. The Bank of Canada continued its rate-cutting cycle with 50bp reductions in October and December, leaving the policy rate at 3.25%. The Bank signaled that large rate cuts might be over, depending on US economic actions.

Changing rate and equity volatility did not affect the North American corporate bond market. Corporate spreads narrowed, reaching the tightest levels since the credit crisis. US and Canadian corporate spreads decreased by about 7bps and 16bps last quarter, and by 16bps and 33bps for the year. Positive risk sentiment from central bank rate cuts and fund inflows into fixed income markets drove the rally in spreads despite strong new corporate issuance. However, rising yields led to negative total returns in the investment-grade market.

## Commentary

**Canadian IG Short Core/Core+**

Contributors:

-Overweight corporate bond risk
-Security selection in the Financial sector
-Bonds in the Energy sector contributed

Detractors:
-Curve steepening positioning

**Closing Commentary**

Politics remain front and center with the new US administration taking power in late January and threatening to implement 25% tariffs. Any tariff would of course be problematic for Canada. Retaliatory action would be inflationary and any support by the Bank of Canada via increased rate cuts would weaken the currency and also be inflationary. The path of longer end rates remains especially uncertain. 30y Canadian yields are now 150bps lower than 30y US yields. Any increase in inflation would make the sector relatively unattractive to own, although all yields usually trade lower during a cutting cycle. It is unclear how attractive investing in Canada would be if it is in the midst of a prolonged trade war with its biggest trading partner.

An additional effect of tariffs could be on Canadian credit spreads. Credit remains well bid although marginally off the tights. At current valuation, we consider the corporate bond market expensive, although the current positive fund flows and higher yields may lend support to prolong this richness a little longer. Given this and until there is more clarity on the geopolitical situation between Canada and the US, we see no reason to increase credit holdings and would look to improve credit quality and liquidity.

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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Canadian Short Term Fixed Income category and reflect the performance of the for the 3-month, 1-, 3-, 5- and 10-year periods as of December 31, 2024 . The percentile rankings compare how a fund has performed relative to other funds in a particular category and are subject to change monthly. The number of Canada Fund Canadian Short Term Fixed Income category funds for for each period are as follows: one year - 240 ; three years - 213 ; five years - 201 ; ten years - 143 .



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