UPDATE – 1ST QUARTER 2024

# FIXED INCOME POOL

**Russell Investments Fixed Income Pool** provides effective diversification against equities and a stable level of cash flow.

## UPDATE AS OF MARCH 31, 2024

## QUARTERLY SUMMARY

| FROM THE PORTFOLIO MANAGER: KEY MESSAGES | |
|---|---|
| **MARKET** | • The start of 2024 was challenging as stronger-than-expected economic data led to rising interest rates in the period, and the Bloomberg Canada Aggregate index fell -1.33% in Q1.<br>• Markets seem to be overreacting to changing expectations for the future path of interest rates due to stubborn inflation and mixed economic data.<br>• Corporate bonds were positive as spreads continued to tighten during the quarter. |
| **POOL** | • The pool outperformed the Bloomberg Canada Aggregate Bond Index.<br>• The pool was 3rd quartile despite beating its benchmark.<br>- Though rates rose over the period, duration positioning had a negligible impact on fund performance<br>- Overweight to credit continues to be the main driver of performance and positive contributor to returns |
| **POSITIONING** | • Our outlook continues to favour an active long duration positioning versus the benchmark.<br>• Credit managers continued to reduce risk as recession risks persists and the economic outlook remains uncertain.<br>• The pool is overweight credit versus the benchmark, but below long-term strategic levels. |

## PERFORMANCE DRIVERS

### CONTRIBUTORS

- Overweight to investment grade corporate bonds, securitized sectors and high yield bonds added value.
- Exposure to U.S. and Canadian rates was flat in the period.
- Foreign exchange (F/X) factor strategy returns were positive in the period.
- All sub-advisers outperformed relative to their respective mandate’s benchmarks.
- Canso was the top performer relative to the pool's benchmark and Canso’s shorter duration structure added value as rates rose in the period.
- The allocation to corporate bonds added value as credit spreads tightened throughout the quarter.

### DETRACTORS

- Holding credit protection (credit default swaps, high yield) modestly detracted as high yield continued to perform well in Q1.
- Beutel Goodman underperformed the fund’s benchmark, and their higher-than-benchmark duration position detracted as yields rose in the period. The lower level of credit exposure in their mandate was unrewarded as spreads tightened in Q1.
- Relative to peer positioning, an underweight to credit risk detracted from peer relative performance in a spread tightening environment.

## OUTLOOK

| CYCLE | VALUATION | SENTIMENT |
|---|---|---|
| Cycle outlook remains positive for fixed income assets, but caution is warranted.<br>- Recession risks remain elevated in Canada and inflation continues to decline.<br>- High likelihood that central banks' monetary tightening cycle has come to an end but rate cuts may be pushed out further than current market expectations.<br><br>Economic weakness is a positive for duration, but a negative for credit. | Rates remain attractive at current levels.<br><br>- Fair value for the Government of Canada (GoC) 10 year estimated at 3.1% versus the 3.6% current level.<br>- Positive return asymmetry from economic scenarios.<br><br>Credit spreads are viewed expensive and are not pricing in a recessionary scenario.<br>- Despite still attractive all-in yields, our Canadian fixed income funds continue to trim credit risk, and are being patient for a more attractive entry point in which to add credit exposure. | Volatility in interest rate markets is expected to remain high.<br><br>- Markets are questioning if economic data will slow enough to allow central banks to follow their forecasted rate path.<br><br>Sentiment in credit markets is still very positive. Significant demand for credit from 'yield buyers' is driving spreads tighter. |

## PERFORMANCE

### Performance (%) as of March 31, 2024

| | 3 mo. | YTD | 1 yr. | 3 yr. | 5 yr. | 10 yr. | Since inception |
|---|---|---|---|---|---|---|---|
| Fixed Income Pool (Series F) | -1.00 | -1.00 | 2.16 | -1.62 | 0.48 | 1.84 | 4.25 |

Performance is annualized except for periods of less than one year. Source: Russell Investments / Confluence. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. Fund inception: February 23, 2001.

## FUND CODES (FRC)

| | Trust |
|---|---|
| B (front load) | 551 |
| B-3 | 725 |
| F3 | 729 |
| F (fee-based) | 552 |
| 0 | 412 |

For additional Series fund codes, visit russellinvestments.com/ca/fundcodes

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