

# NEI Balanced Yield Portfolio

## Q4 2024 Commentary



### Market review

Overall, 2024 was marked by strong equity rallies globally, particularly in the US, while fixed income markets navigated a complex environment of rising yields and shifting central bank policies. Global equity markets delivered strong performance, with North American stocks and global indices posting significant annual gains. The S&P 500 Index recorded double-digit returns for the year, driven by investor optimism around AI innovation, resilient economic growth, and Federal Reserve rate cuts. However, the fourth quarter saw more moderate equity returns compared to earlier quarters, as optimism following the US presidential election was tempered by concerns over inflation and monetary policy shifts. Canadian equities showed mixed sector performance in Q4, with technology leading gains, while global equities also hit new highs before softening in December. European equities lagged due to concerns around slowing growth in Germany, potential tariffs and political turmoil in France and Germany.

Fixed income markets faced challenges in Q4, with global bonds generating negative total returns due to inflation concerns and fiscal sustainability fears following the US election. Spread sectors outperformed government bonds, while high-yield bonds continued to lead annual fixed income returns. Rising government bond yields weighed on longer-duration investment-grade credit, though US Treasuries and European government bonds managed modest gains for the year. The US dollar strengthened against most currencies in Q4, reflecting broader market volatility.

### Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
NEI Balanced Yield Portfolio Series I	1.00	8.57	14.90	14.90	5.03	5.73	6.33	N/A
NEI Balanced Yield Portfolio Series A	0.42	7.31	12.30	12.30	2.66	3.34	N/A	3.90
NEI Balanced Yield Portfolio Series F	0.74	7.99	13.70	13.70	3.94	4.63	N/A	5.18
Benchmark 1: 40% BBG Global Aggregate CAD Hedged, 45% MSCI ACWI, 15% S&P TSX	2.45	8.12	16.38	16.38	5.28	6.89	N/A	6.71

<sup>1</sup>Source: Morningstar. As of December 31, 2024. Since inception is only provided for Funds with less than 10 years of performance. The benchmark since inception return in the table is calculated as of the inception date of Series A. Since inception benchmark return for Series F is 6.69, respectfully.

On March 1, 2023 the fund benchmark was changed. Prior to this date, the fund benchmark was 50% Bloomberg Barclays Global Aggregate Index (C\$ hedged), 35% MSCI World NR Index (C\$) and 15% S&P/TSX Composite TR Index.

### Performance

The Portfolio underperformed over the last 3-month period as manager selection detracted from performance, which was slightly offset by positive contribution from our out of benchmark allocations. Our out of benchmark allocation to Canadian bonds and high yield contributed positively as both asset classes outperformed global bonds during the period. At the same time, our Global High Yield Bond Fund underperformed detracting from overall performance. On the equity side, the global dividend, Canadian Dividend and Clean infrastructure funds underperformed due to their defensive/low volatility focus and exposure to small- and mid-cap international and renewable infrastructure investments. The US Equity allocation outperformed over the period.

### Outlook

Investors can reflect on a strong year, driven by excitement around AI and resilient market dynamics. Equities saw robust gains, while high starting yields helped bonds absorb some of the impact of rising interest rates, supporting balanced portfolios.

As we look ahead to 2025, several key factors will shape the investment landscape. The stability of the U.S. labour market, global inflation trends, and Europe's economic recovery remain critical areas of focus. The recent U.S.

election could introduce policy changes that may influence both domestic and international markets. While U.S. growth is expected to slow without tipping into recession, potential new policies could affect inflation and interest rates. The Federal Reserve's cautious approach underscores the complexities of the current economic landscape. The labour market has proved to be resilient and consumer spending remains strong; the stronger-than-expected economic performance and persistent inflation pressures warrant a more cautious stance to future cuts.

Going forward, we expect equities to outperform fixed income in the near term, with broader participation. Trump's pro-business policies of tax cuts and deregulation point to higher US stock prices, while the robust economic backdrop is positive for a broadening of the markets, so we would focus on companies and sectors outside of the Magnificent 7 with good earnings growth and attractive valuations. Geographically, our confidence in equity returns outside of the US is more muted now as the prospects of tariffs put downward pressure on earnings in those regions, including Canada. However, equity valuations continue to be more attractive in ex-US regions and may provide more downside protection in the event of downside volatility. Bond returns will be more muted in the US if less rate cuts are expected. Tariffs could lead to lower interest rates outside the U.S., which would be beneficial for bond prices outside of the U.S. We expect increased volatility as a result of the unconventional policies associated with the Trump administration and would use market pullbacks as opportunities for entry points.

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