

NEI Canadian Bond Fund

Q1 2025 Commentary



Performance

The Fund (Series I) outperformed the benchmark for the quarter.

The bond market rallied as yields declined during the first quarter of 2025, driven by the short end of the yield curve as the Bank of Canada (BoC) lowered its policy rate by 0.50% from 3.25% to 2.75% in an effort to mitigate the impact of U.S. tariffs on domestic growth. The macroeconomic backdrop surprised to the upside, driven by the higher-than-expected CPI print for February as a result of the end to the GST/HST sales tax holiday, with restaurant prices contributing the most to the acceleration.

The U.S. also saw bond yields move markedly lower over the quarter as the prospects of a prolonged trade war and dramatic cuts to government spending weighed on U.S. growth. The Federal Reserve (Fed) held its policy rate at 4.50% citing preferred measures of inflation not yet within the bank's target range.

The European Central Bank reduced its policy rate by 25 basis points in both January and March meetings. The Bank of England implemented a 25 basis points cut, whereas the Bank of Japan raised its rate by 25 basis points.

The net result was positive for bonds, with the Universe (FTSE Canda Universe Bond Index) returning +2.02% in the first quarter. Mid-term bonds outperformed both the short-end and the long-end. Government bonds outperformed corporate bonds as credit spreads on investment grade corporate bonds widened over the quarter from their cycle lows. The longer duration non-cyclical segments of the corporate index (i.e., Communication and Infrastructure) outperformed the shorter duration cyclical segments of the index (i.e., Financial, Industrial).

The USDCAD pair marginally strengthened from as long-term interest rate differentials between the U.S. and Canada narrowed, while the spread between West Texas Intermediate and Wester Canada Select also narrowed over the quarter.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Canadian Bond Fund Series I	2.25	2.51	2.25	9.02	3.77	2.18	2.64	N/A
NEI Canadian Bond Fund Series A	1.85	1.69	1.85	7.26	2.11	0.54	1.00	N/A
NEI Canadian Bond Fund Series F	2.00	2.00	2.00	7.91	2.73	1.15	1.60	N/A
<i>Benchmark 1: FTSE Canada Universe Bond Index</i>	2.02	1.98	2.02	7.65	2.50	0.88	1.77	N/A

¹Source: Morningstar. As of March 31, 2025. Since inception is only provided for Funds with less than 10 years of performance.

Portfolio commentary

The Fund outperformed its benchmark in the first quarter of 2025, driven primarily by yield curve changes.

The Fund's overweight exposure to Provincial government bonds and corporate bonds within the Financials sector provided the largest contribution to relative performance. Widening credit spreads during the quarter detracted from relative performance as a result of the Fund's larger corporate weighting. From a yield curve positioning standpoint, the Fund's relative overweight in 7- and 10-year key rates contributed positively to relative performance as the yield curve steepened with rates across all tenors along the yield curve declining.

Over the quarter, the Fund increased its exposure to Provincial government bonds while reducing exposure to corporate bonds within the Financial and Communication sectors.

Outlook

With near-term inflation expectations rising due to tariffs, the extent of the potential impact to demand (weakening) remains uncertain. As a result, the policy path of rates is unclear as the BoC balances the risks of potentially lower economic growth and higher inflation. Market pricing for overnight indexed swaps (OIS – a proxy for the expected policy interest rate) suggests that the BoC will provide additional cushion by lowering rates at least once by an additional 0.25% before the end of June.

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