

NEI Global Total Return Bond Fund

Q4 2024 Commentary



Performance

The Fund (Series I) outperformed its benchmark over the quarter.

In the US, the economy expanded, consumer spending remained supported by a healthy labour market, wages and appreciating real estate and portfolio values and inflation remained sticky. The Federal Reserve (Fed) cut twice the federal funds rate, by 25bps in November and December to a target range of 4.25%-4.50%. However, at its final meeting of 2024, the Fed delivered a hawkish tilt to its updated economic projections and "dot plot". Against this backdrop, the yield curve repriced higher. In the Eurozone, data continued to point to a slowing economy with manufacturing and industrial output continuing to suffer. The European Central Bank (ECB) lowered its key deposit rate by 0.25% in October and December, bringing it to the level of 3.0%. The ECB left the door open to ease monetary policy further but maintained its emphasis on taking a meeting-by-meeting approach. In this context, the German Bund yield curve repriced higher. The 10-year spread between the German Bunds and Italian BTPs narrowed down as investors are continuing to seek higher yields, whilst the 10-year spread between Germany and France widened marginally due to the political uncertainty in France. Moving on to credit, the main indices had a positive trend in Q4. Credit spreads tightened. Euro outperformed the US both in IG and in HY credit. In currency markets, the US Dollar had a positive quarter. In the EM FX, the strength of the US Dollar weighed on the emerging markets currencies driving the JP Morgan Emerging Markets Currency Index to return -7.7% in Q4 and -2.6% in December.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Global Total Return Bond Fund Series I	-1.00	2.74	4.08	4.08	3.08	2.24	3.23	N/A
NEI Global Total Return Bond Fund Series A	-1.46	1.79	2.18	2.18	1.20	0.38	1.27	N/A
NEI Global Total Return Bond Fund Series F	-1.25	2.22	3.04	3.04	2.05	1.22	2.15	N/A
<i>Benchmark 1: Bloomberg Global Aggregate TR Hdg CAD</i>	-1.32	2.61	2.41	2.41	-1.23	0.01	1.62	N/A

*Source: Morningstar. As of December 31, 2024. Since inception is only provided for Funds with less than 10 years of performance.

Portfolio commentary

The Fund posted positive relative returns versus its benchmark. Total return was instead negative. Contribution from rates was marginally negative. While an underweight duration meaningfully contributed, overweights Australia, UK, New Zealand detracted. A steepening stance on the US and Euro curves was also a detractor. Overweight credit delivered a positive contribution as spreads continued to tighten. The allocations to emerging market delivered a positive contribution. Currency positions were positive on balance. A long USD was the main driver. Long positions in NOK against SEK and GBP faced challenges, as the NOK remained under pressure from declining energy prices. The allocation within the commodity block was also a detractor, with the AUD weakening versus the CAD. A long JPY detracted. EM currencies contributed on balance.

During the quarter the Fund's duration moved from underweight to neutral. The main change happened via the US curve where the sub-advisor added progressively almost 1 year duration, especially on the short-end segment. An underweight European rates was instead increased via belly of the German curve. The duration times spread of the Fund was marginally reduced in a profit taking exercise. In FX, they reduced the long USD, crystalizing profits. An allocation to the commodity bloc was also reduced buy back NZD and CAD. A long JPY was increase in preparation to a hawkish move of the BOJ.

Outlook

Looking ahead, global markets will be driven by earnings momentum, a scenario of slow US growth without a recession, rebalancing labour markets but not drastically weakening and the Fed getting less dovish but still in easing mode. Outside the US, European growth, policy-making and the European response to a hawkish Trump will determine the fate of the markets. Markets are already discounting a weak picture for European economy. In EM, the potentially pro-inflationary US policies and stronger USD versus EM currencies continue to remain areas of concern. In Credit the sub-advisor remains constructive as fundamentals remain strong although valuations are stretched. In FX, the Fund remains cautious on those currencies whose central banks are less hawkish and macro picture more fragile.

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