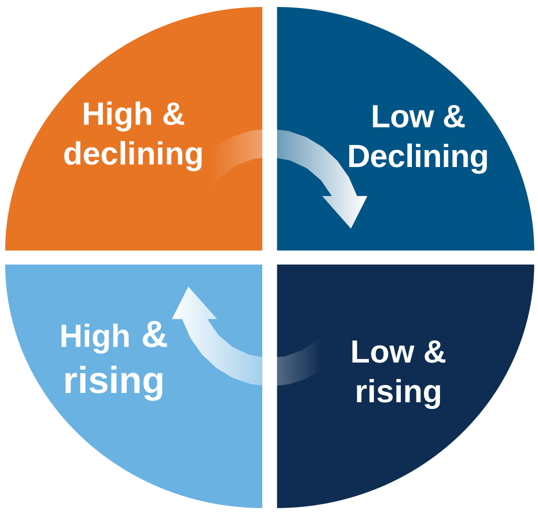
Portfolio Manager Monthly Insights

Inflation regime:

Low & declining



US headline CPI, seasonally adjusted

Nov	Dec	Jan	Feb	Mar
2.7%	2.9%	3.0%	2.8%	2.4%

The Fund's proprietary assessment of trend and cyclical inflation continues to indicate that we remain in a "low & declining" inflation regime for now. The asset allocation is currently at 57.5% equities and commodities versus the Fund's neutral position of 55% equity/45% fixed income. Our fixed income allocation is at 42.5% with the overall duration currently at 6.2 years.

CPI Insights

- US Headline CPI fell for the first time since May of 2020, printing 0.1% m/m in March and the y/y figure moderated to 2.4%, both printing below the median consensus estimates. The drop was largely due to energy prices falling 2.4% m/m, primarily driven by gasoline prices which fell 6.3% m/m.
- Core CPI, which excludes the food and energy categories, rose 0.1% m/m (0.06% unrounded), well below the consensus estimate of 0.3% m/m and the y/y figure slowed to 2.8%, however remains well above the Fed's 2% target. Core goods prices fell 0.1% m/m with used vehicle prices (-0.7% m/m) and medical care goods (-1.1% m/m) being the main contributors.
- Core services prices rose 0.1% m/m which was the smallest gain since August 2021 and a far cry from the 0.5% m/m increase we saw in January. Shelter inflation finally showed signs of cooling with a 0.2% m/m gain, however OER (owners equivalent rent) was up 0.4% m/m. Other notable drops were in airline fares (-5.3% m/m) and hotels (-3.5% m/m) likely reflecting weak domestic consumer sentiment and foreign tourist aversion.

- With tariffs capturing all the headlines, US CPI in March took a slight backseat particularly considering that these figures do not take into account the price impacts of the announced tariffs. While the print surprised to the downside, tariffs represent firming price pressures in the pipeline and pose upside risks to inflation in the coming months.

Key takeaways: Equity

- Asset allocation: Our allocation remains at 57.5% equities which includes physical commodities (10%), versus the Fund's neutral position of 55%.
- The Fund's equity exposure continues to have a balanced approach, emphasizing globally diversified large cap equities, and we continue to have a preference towards EAFE exposure.
- The fund maintains its exposure to precious metals equities which currently stands at 4% and gold bullion at 6% and maintains its exposure to resource equities (10.5%), inline with the fund's benchmark.
- Markets have spent most of their history in a "low and declining" inflation regime. Macro economic conditions remain in flux with the new US administration and tariff policies if enacted will most likely support inflation at a higher level than average. We remain focused on a potential reacceleration of inflation and hence is ready to make the necessary changes matching new inflation expectations.

Key takeaways: Fixed Income

- Asset allocation: Our fixed income allocation remains at 42.5% versus the fund's neutral position of 45%.
- We maintain our allocation in longer dated government bonds and prefer US over Canada with the bulk of the allocation in US 5 year bonds and US 10 year bonds.
- We continue to maintain our current position in US inflation linked bonds (TIPS) and have an increasing preference for EM debt.
- The overall duration of the fixed income segment currently stands at approximately 6.2 years.