CIBC SUSTAINABLE CANADIAN CORE PLUS BOND STRATEGY

Portfolio commentary as of January 2023

Overview

- As the calendar shifts into a new year, we attempt to identify the key issues and trends to expect across the responsible investment landscape throughout 2023. In an area where change is happening at a heightened pace, it is critical to prepare for these trends in order to navigate the complexity and diversity of ESG considerations across various markets.
- With an increase in net zero commitments from companies, asset managers, and asset owners, we expect more focus on standardized emissions disclosure frameworks to emerge. This will impact how investors perceive company and portfolio emissions, and should lead to more transparent climate risk disclosures across the investment industry.
- On the back of COP15 in Montreal last year, along with the upcoming launch of the Task Force on Nature Related Disclosures (TNFD), we expect biodiversity to become a larger part of the climate conversation alongside carbon emissions.
- Given the increase in climate-related advances in recent years, it seems as though social issues have taken a back seat. We expect this trend to reverse in the near term. For example, UNPRI has already signaled that human rights and modern slavery will be an area of focus moving forward, and DEI initiatives are top of mind for organizations globally.
- Overall, while the polarization of ESG continues to be stoked, and asset flows have normalized relative to recent levels, we are expecting another year of continued progress and refinement around how investors can best integrate nonfinancial factors throughout their investment process.

Performance

- January was a solid month for the bond market, with investors seeing a path to the end of central bank tightening, with recession risks rising, consumer spending cooling and inflation pressures easing. All favourable fundamentals for bond performance. Ultimately, bond yields fell sharply in the month, both in Canada and the U.S., with yields moving lower by more than 30 bps across both yield curves.
- As expected, the Bank of Canada continued to hike rates in January, raising the overnight rate by 0.25% to 4.50%. However, the market reacted positively as Governor Macklem acknowledged plans for the Bank to remain on hold for some time, as it assesses the impact of its existing tightening efforts. No policy meeting took place for the Fed in January, with the next hike expected to take place on February 1st.
- Despite the continued risks and growing consensus that expect a recession in 2023, corporate credit saw strong performance in the month, as inflation pressures continued to cool and investors saw a path to end of central bank tightening. Credit spreads moved tighter in January, with investor demand for corporate bonds far outpacing supply in both the primary and secondary markets.
- The portfolio remains overweight the corporate sector and underweight the Government of Canada and Provincial sectors. The yield of the portfolio is above the benchmark due to the sector allocation strategy and duration was modestly longer than the benchmark during the period.
- The strategy continues to provide investors with significantly lower exposure to carbon risk through reduced exposure to both fossil fuels and emissions. As the world tackles the climate crisis, the strategy will benefit from its low exposure to transition risk. The portfolio also provides investors with less exposure to companies with poor ESG practices, highlighted by the higher ESG profile.

1204 | 02/2023