

So far, 2025 has felt like ‘everything everywhere all at once’ as bond markets grapple with the flood of new policies and developments. Overall, fears that tariffs would lead to a recession (on both sides of the border) led to yields dropping and a sell-off in credit.

## Interest rates.

	<i>Dec. 31, 2024</i>	<i>Mar. 31, 2025</i>	<i>Q1 moves</i>
<i>CAD 2Y</i>	2.93%	2.46%	-0.47%
<i>CAD 10Y</i>	3.23%	2.97%	-0.26%
<i>US 2Y</i>	4.24%	3.89%	-0.35%
<i>US 10Y</i>	4.57%	4.21%	-0.36%

The BoC delivered two 25 bps cuts in Q1 (January & March), bringing the overnight rate to 2.75%. The Bank acknowledged that the economic data didn’t warrant a second cut, but with ‘pervasive uncertainty’ around tariffs, further easing was prudent. With inflation still running hot south of the border, the Fed held rates steady, opting for a ‘wait and see’ approach.

Amidst the stagflation quagmire of high inflation and low growth, central banks and markets appear to be more focused on the latter. The perception is that tariff-induced inflation will be ‘transitory’ and that the bigger concerns are slower growth and higher unemployment. Accordingly, the bond market is pricing in two additional cuts from the BoC and three from the Fed later this year.

## Credit.

	<i>Dec. 31, 2024</i>	<i>Mar. 31, 2025</i>	<i>Q1 moves</i>
<i>CAD IG</i>	99 bps	113 bps	14 bps
<i>US IG</i>	80 bps	94 bps	14 bps
<i>US HY</i>	313 bps	374 bps	61 bps

Credit spreads came under pressure as investors considered the impact of tariffs on corporate profits and economic growth. Investment-grade spreads were broadly 10-20 bps wider depending on the sector, with higher-quality, liquid issuers outperforming. The auto sector, the poster child for tariffs, underperformed with spreads 30-90 bps wider.

Despite the weak tone, there was plenty of new supply, with issuers racing to get ahead of ‘liberation day’. The US market set a Q1 record with \$550 bn of new deals, while Canada saw \$42 bn of corporate supply (similar to last year).

## The fund.

The Fund was defensively positioned, having significantly reduced credit exposures, while actively managing the interest rate duration in a range of 2.5-3.5y

Q1 F Class Returns: 1.18%

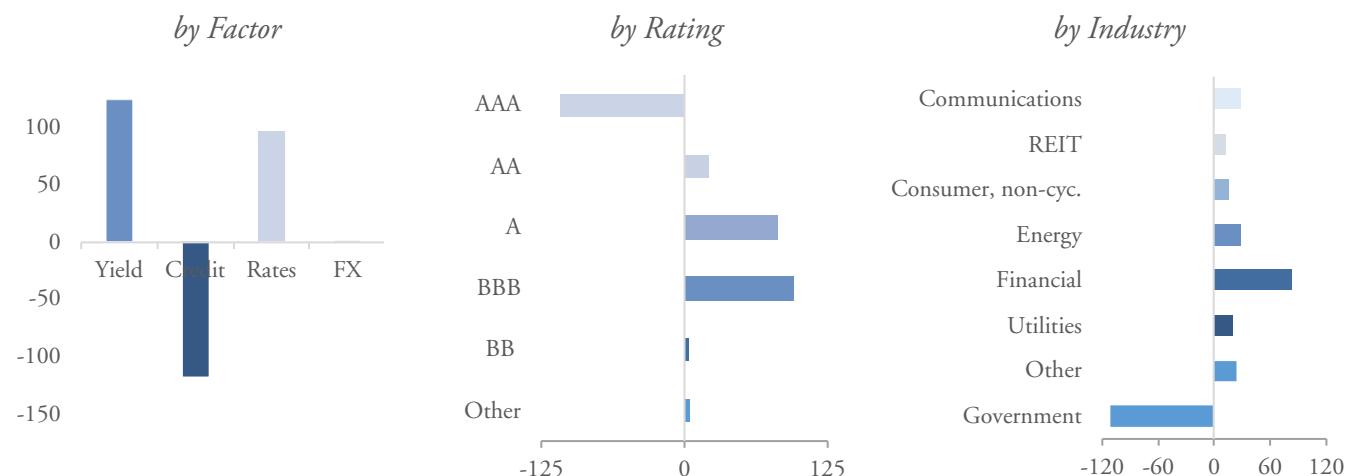
- Reducing credit exposure and concentrating in higher-quality issuers minimized the losses from spread widening.
- While the lower duration range reduced volatility, the fund did not fully participate in the rate rally.
- Excess returns were generated by capitalizing on market volatility through tactical trading.

## Fund performance. *All data as at March 31, 2025*

### Returns (F Class)

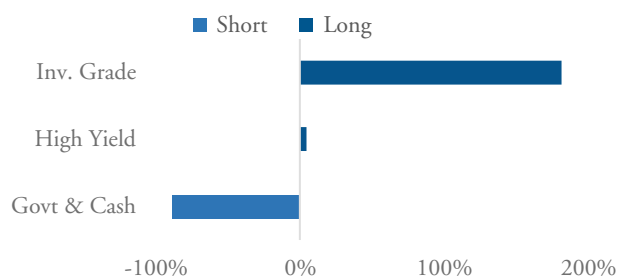
1 month	3 month	6 month	YTD	1 year	2020	2021	2022	2023	2024
0.05%	1.18%	3.05%	1.18%	9.49%	10.53%	2.42%	-6.15%	9.75%	9.84%

### Return attribution (basis points)



## Portfolio summary. *All data as at March 31, 2025*

### Portfolio Breakdown (net exposures)

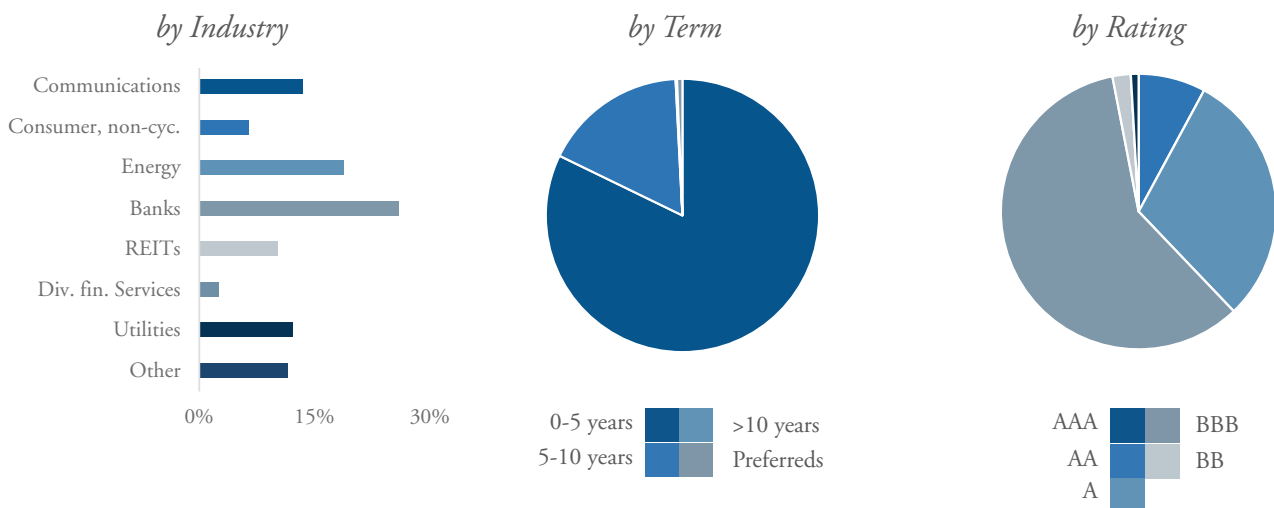


### Key Metrics

Portfolio Yield	Interest Rate Duration	Average Term	CR01	Leverage
4.3%	3.1yrs	3.0yrs	5.0bps	1.5x

Portfolio Yield is the weighted average aggregate yield net of borrow cost; IR Duration is an estimate of portfolio sensitivity to 1% change in interest rates; Average Term is weighted average term to maturity of long positions; CR01 is an estimate of portfolio sensitivity for a one basis point change in credit spreads across all credit positions; Leverage based on short positions and borrowed cash as per National Instrument 81-102.

## Long Exposures



## Top 10 Holdings

**Videotron** 4.5 01/15/30

**Nova Scotia Power** CP 05/01/25

**Federated Co-operatives** 3.917 06/17/25

**Wells Fargo** 2.568 05/01/26

**Honda** FRN 06/29/26

**Fed Caisses Desjardins** 4.264 01/24/35

**TD** 3.105 04/22/30

**Videotron** 4.65 07/15/29

**Bruce Power** 4.7 12/21/27

**CIBC** FRN 01/28/27

The information provided in this document is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. This document is not, and does not constitute, an offer to sell or the solicitation, invitation or recommendation to purchase any securities. The information provided may be subject to change and Algonquin does not undertake any obligation to announce updates or changes to the information presented in this document. Algonquin Fixed Income 2.0 Fund is an Alternative Mutual Fund. Investors should read the Simplified Prospectus, Annual Information Form, and Fund Facts Documents and consult their registered investment dealer before making an investment decision. Commissions, trailing commissions, management fees and operating expenses all may be associated with mutual fund investments. An Alternative Mutual Fund is not guaranteed, its value changes frequently and its past performance is not indicative of future performance and may not be repeated. Payment of quarterly distributions is not guaranteed and paid at the discretion of the manager, therefore, it may vary from period to period and does not infer fund performance or rate of return.