

CAPSTONE FIXED INCOME POOL

Q1 Commentary

MARCH 31, 2024

AT A GLANCE

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$44 MM AUM
- Current price: \$10.4588 (Series I)

MARKET & POOL UPDATE

It has been an interesting start to the year with the iShares Core Canadian Universe Bond index ETF down 1.33% YTD vs the Capstone Fixed Income Pool which returned 0.53% over the same period. With 2024 well under way, the expectation is such that interest rates will continue to stabilize with increasing probability for rate cuts both in Canada and south of the border. In general, the US market is still closely monitoring the Federal Reserve's decisions as it pertains to potential rate cuts. Now heading into April, the market, which was expecting 6 rate cuts in 2024, has now lowered its expectations to expect the first rate cuts perhaps in June. The main contributor to the slower than anticipated rate cuts is the stronger than expected economic data that strengthened the Central Bank's determination on disinflation, that is to decrease the pace of inflation. On the other hand, there is consensus that the Bank of Canada may pivot rates earlier than the US as the Canadian economy is not as strong and so we look to the upcoming May meeting for further insight.

Currently, the spread between the 2 year and 10-year yield curve is negative. This inverted yield curve is likely to set a record for the longest yield curve inversion period in history. While this could potentially be warning of an impending recession, we view its significance more as a general sentiment regarding the uncertainty in both fixed income and equity markets. It is worth noting that during times of stress, both fixed income and equity markets tend to become more correlated. Within the fixed income markets and throughout the course of the first quarter, credit spreads across all credit rates continued to tighten illustrating the relative outperformance of corporate bonds to government bonds. Tighter spreads are indicative of the belief among investors that leveraged corporations have the ability to repay debt, which makes corporate bonds more competitive.


The biggest contributors to performance this quarter were our exposures to corporate bonds and alternative credit opportunities. Both of these bond strategies benefitted from the regular coupon income, tightening corporate credit spreads as well as the continuing disinflationary market environment. The Pool's biggest detractor in the month was our exposure to a specific private yield opportunity; this investment is closing and this gradual reduction of assets can affect the return as assets in the portfolio mature.

As rates stabilize, the Investment Management Team is looking to increase the allocation to the traditional bond sector which had been underweight for quite some time given the previous rising rate environment. The Capstone Fixed Income Pool maintains its hybrid status meaning that it will have a combination of both traditional and non-traditional opportunities. As can be seen in the shorter-term lower performance relative to benchmark, having this blend within the fixed income space mitigates risk by enhancing diversification.

For more information on this Pool, please contact your Portfolio Manager.

PERFORMANCE (Gross of Fees)

Performance figures are those of Series I units as of March 31, 2024. Performance is annualized for periods longer than one year.

	1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
	0.27%	0.53%	-1.94%	-1.17%	1.37%	3.31%	3.82%

