

## PH&N Short Term Bond & Mortgage Fund



### Commentary as at December 31, 2022

Canadian government bonds posted their worst returns since 1980, as central banks in North America and Europe aggressively raised short-term interest rates to fight inflation running at its highest in four decades. The Bank of Canada raised the overnight rate seven times in 2022 by 4.0 percentage points to 4.25% in an attempt to calm the persistently high inflation. Meanwhile, a heightened risk of recession had a negative impact on the performance of non-government bonds relative to sovereign issuers.

The Fund was positioned to have less sensitivity to interest rates than the broader bond market, which helped to insulate the portfolio from the decline in bond prices resulting from the sharp rise in interest rates. Additionally, the portfolio manager's continued preference for high-quality corporate bonds – issuers with steady earnings and healthy balance sheets - contributed strongly to the Fund's performance as these bonds outperformed riskier corporate bonds. The higher income earned from the Fund's allocation to commercial mortgages also contributed to performance.

In light of the softening economic backdrop, the portfolio manager remains cautious as the risk of a recession remains high. The portfolio manager therefore continues to favour higher-quality, more liquid assets that position the Fund to withstand any market weakness, and stands ready to take advantage of attractive opportunities as they arise.

While the sharp rise in yields this year has resulted in declines for the Fund, investors should keep in mind that the Fund's yield is significantly higher than it was a year ago. The portfolio manager's research shows that, all else being equal, periods in which yields rise significantly are often followed by periods of attractive returns.

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