Core Fixed Income Team

DXBB & DXCB Year In Review

December 2025

Asset Allocation

While each year is clearly different, and averages can mask notable movements around them, the so-called "Santa Clause Rally" in US equity markets bears out in the numbers. Since 1929, the S&P 500 has an average gain of +1.9% in December. Further, in the 32 years when the index has returned greater than 15% in the Jan-Nov period before it (as it has done this year), the average December gain rises to approximately +2.9%! So with this historical positive seasonality as a tailwind to risk assets, we decided to take a page out of Monty Burn's managerial playbook – "it's called playing the percentages. It's what smart mangers do to win ball games." – and added to our credit exposure towards the end of November.

That said, with the start of the new year having been quite volatile in recent years and with the expectation of potentially record new issue supply in January, this increased credit exposure will likely be a short-term tactical strategy. The average IG corporate spread in both Canada and the US rose 2 bps in November, driven by heavy front-loading of issuance as we move closer to year-end. Spreads are now 4 bps and 8 bps off their tights of the year in Canada and the US, respectively, so clearly the backup has been very limited thus far. From a relative return perspective, Canadian IG corporate bonds outperformed their government counterparts by 12 bps on the month and have outpaced them by 189 bps YTD, and 208 bps over the last year. US IG corporates lagged US Treasuries by 3 bps on the month but have outperformed by 106 bps YTD and 126 bps over the past year.

On a fundamental basis, the macroeconomic backdrop has been resilient, corporate credit strength is solid and the flow of funds into financial assets continues unbated. We expect the corporate supply calendar to slow into year-end, which could help support spreads. Further, with the recent backup in government yields, higher all-in yields in credit continue to support strong demand for corporate debt. As mentioned, we took advantage of the modest spread weakness and constructive seasonals to add to our corporate exposure. We continue to view the front end of the credit yield curve as an attractively priced and defensive part of the market.

Credit Management

During the month, weights in both U.S. dollar corporate and Canadian high-yield corporate holdings were marginally reduced. This reduction was offset by increased Canadian investment-grade positioning, leaving aggregate credit exposures relatively unchanged. With risk premiums near their tightest levels, the opportunity was taken to lower positions in expensive credits less likely to outperform the market. Where feasible, the new issue market was utilized to establish positions deemed good value. Looking forward to 2026, following the upcoming holiday season, the new issue market is expected to offer opportunities in both Canada and the U.S.

Rates Management
There was significant volatility in rates this year (especially in the U.S.) and it was not one directional. This worked to our advantage as we were able to tactically adjust long and short duration positions to add significant alpha. We discussed our best "Our Best Trade of 2025" here, which centered on the narrowing in U.S. – Canada rates.

While the spread in yields has narrowed since the beginning of the year, there is still diverging Central Bank policy between Canada and the U.S. In late 2025, the Federal Reserve (Fed) restarted its cutting cycle with 3 rate reductions in Q4 after holding the line all year. The Bank of Canada (BoC) cut 4 times this year but looks to have ended it's own cutting cycle. We're forecasting that the BoC will hike in late 2026 and Canadian 5 and 10-year Treasury yields are beginning to align to that possibility. We also anticipate volatility will persist in 2026 and plan to remain tactical in managing duration.

Derivatives Strategies
The year began with a modest level of implied volatility as measured by the Merrill Lynch Option Volatility Estimate (MOVE) Index. Donald Trump's second term promised multiple tariffs imposed on countries around the world. This perceived risk pushed the MOVE Index higher with each new headline, eventually peaking on Liberation Day. Subsequent headlines were less impactful, and the MOVE Index closed the year near its low.

While our primary use of derivatives is to hedge and enable more efficient portfolio management, we also implemented a variety of derivative strategies including both buying and selling options to generate trading profits. An example of a strategy is one we executed in the second quarter. Implied volatility dropped sharply; we anticipated a bounce back but did not have a strong view on the direction of bond yields. So, we bought both a call and a put ("long straddle") and waited for the volatility to rise. It did as we expected and we closed our profitable trade.

As we look forward to 2026, we foresee an uptick in volatility from this unusual calmness of the bond market. This will provide more opportunities to supplement the performance of our funds with derivative trading strategies.

Currency
In 2025, a combination of tariff uncertainty, rising import costs, and investor caution caused the U.S. dollar to weaken against many of its global peers. The U.S. Dollar Index (DXY) has lost ~10% so far year-to-date. Throughout the year we fully hedged all our U.S. positions which protected our portfolios from this softening. We'll continue to maintain full hedging in 2026 to ensure that the primary drivers of returns are our high conviction ideas in other areas of the Core Fixed Income Team's integrated approach.

We look forward to continuing to deliver results for our clients in 2026. Happy Holidays to all!

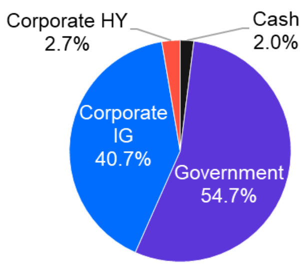
Core Fixed Income Team

DXBB & DXCB: Year In Review

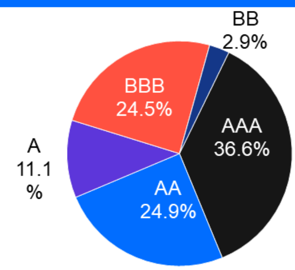
Dynamic Active Bond ETF – DXBB

Key statistics	
YTM (Gross)	3.70%
Duration	6.73 yrs
Credit Duration	5.02 yrs
Avg. Price	$100.03
Country	
Canada	93.6%
U.S.	6.4%

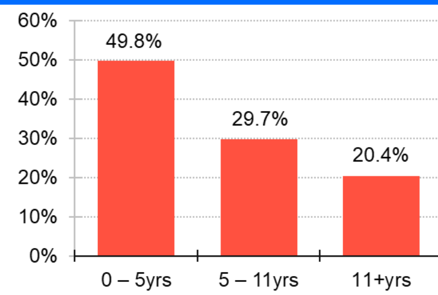
Asset allocation



Credit rating



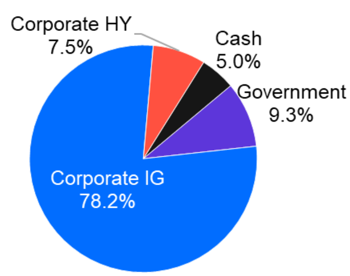
Term



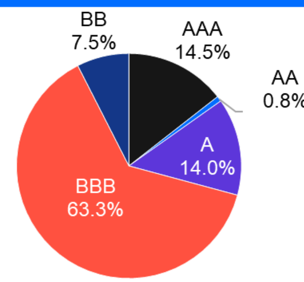
Dynamic Active Corporate Bond ETF – DXCB

Key statistics	
YTM (Gross)	4.18%
Duration	5.33 yrs
Credit Duration*	5.82 yrs
Avg. Price	$102.93
Country	
Canada	88.2%
U.S.	11.8%

Asset allocation



Credit rating



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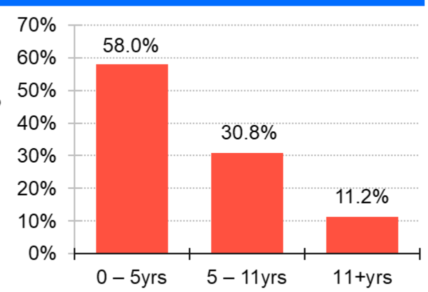

Source: Dynamic Funds, As of November 30, 2025