# CREDIT CRUNCH

## Dynamic Specialized Credit Team

## June 2025 Commentary

**Highlights**

If you had taken a sabbatical in early 2025 and returned at the end of June 2025, simply glancing at equity levels and credit spreads, you might never have guessed that a regional war had broken out between Israel and Iran or that global trade tensions had flared up again. During this period, global equities hovered near record highs, credit spreads tightened, and the early-month spike in oil prices was completely reversed. On the surface, it looked like just another risk-on month. This resilience reflected measured responses from Iran and Israel, alongside robust global oil supply, which helped contain the geopolitical shock and prevented a systemic market repricing.

In our view, the most persistent risks lie in macroeconomic and policy dynamics. Inflation has cooled, but not decisively, with US shelter and services inflation remaining sticky. The Federal Reserve held rates steady in June and reiterated that any policy easing would be data dependent. Markets are still pricing in rate cuts by year-end, but the Fed has made it clear that returning to the 2% inflation target is a gradual process, not a pivot. At the same time, fiscal pressures are intensifying amid growing deficit concerns. While markets shrugged off the recent credit rating downgrade, the fiscal trajectory is now more visible, with increased sensitivity to Treasury issuance and term premium.

Yet valuations appear disconnected from these risks. Equity multiples continue to expand, especially in growth sectors, despite limited earnings breadth outside AI. Credit spreads remain tight across the spectrum, reflecting strong market technicals. However, this compresses the margin for error. With limited valuation cushion, carry remains valuable but security selection, structure, and liquidity terms matter more now than at any point in this cycle. In this environment, we believe that beta exposure alone is insufficient; conviction must be earned through fundamentals.

**Portfolio Updates**

Despite the improving market tone, economic uncertainty remains elevated and as a result, our overall positioning remains balanced. We are positioned to take advantage of opportunities as they may arise and continue to believe that we could see modest tariff impacts begin to reveal themselves in economic data as the summer progresses.

***Ultra-Short Term Investment Grade Mandates:***

- The Funds continue to focus on high-quality issuers that provide stability and predictable cash flows, forming a strong foundation for the portfolio.
- High quality credit spread tightening in the month enabled the portfolio to earn an extra 7 bps vs its benchmark during the month.
- This mandate remains well-positioned to deliver competitive yields relative to cash-equivalent alternatives while offering daily liquidity and flexibility. The fund continues to experience strong inflows, particularly from investors seeking to redeploy capital away from HISA's and GIC as they mature.

***Discounted Investment Grade Mandate:***

- The Fund's average bond price remained in-line with the previous month at $97.28, reflecting a near $5 discount to the Fund's benchmark and reinforcing the embedded tax advantages of this strategy.
- The Fund increased its allocation to Limited Recourse Capital Notes (LRCNs) at compelling valuations, as bank capital securities underperformed the broader rally seen in Investment Grade credit spreads.
- Recent new issuance activity in the Energy sector has drawn investor attention to its attractive valuations. Energy credit spreads tightened to fresh lows following these deals. In response, the Team tactically trimmed the Fund's overweight position to oil & gas producers, redeploying capital into lower beta issuers.
- As highlighted in our May commentary, the Team added high-quality US Investment Grade corporate bonds to the Fund, taking advantage of deeper price discounts, more attractive credit spreads, and higher yields relative to those available in the Canadian market. Our exposure to US interest rates further benefited the Fund, as US Treasuries yields outperformed those of Canadian government bond by 18 bps over the month of June.

***Multi-Sector Fixed Income / High Yield Mandates:***

- During the month, we opportunistically trimmed our high-beta energy positions amid the strength driven by the Israel/Iran conflict. It was our view that neither Israel nor Iran was incentivized to attack oil infrastructure; therefore, the strong rally in oil was likely to be temporary. While we have reduced exposures, we remain overweight energy because we believe our selection of higher-quality issuers with strong balance sheets offers compelling rewards relative to the risk.
- We were active in the new issue market during June, participating in select offerings where we saw attractive value. Given the appreciation of the credit market during the month, we recycled some new issue paper where valuation gaps had closed, moving into positions offering better convexity at lower dollar prices. We continue to seek new issues that offer valuation discounts in quality companies and are passing on offerings from highly leveraged issuers looking to opportunistically raise capital in a hot market.
- The mandates increased exposure to CAD-denominated High Yield securities, which offer a significant pickup in value versus USD securities due to current elevated currency hedging costs. Our CAD High Yield exposures remain focused on high-quality issuers, and we remain mindful of the lower liquidity in the Canadian high yield market, resulting from smaller issue sizes and fewer participants.

***Preferred Share Mandates:***

- June was no different than May, the Canadian preferred shares rebounded very strongly and is now providing a 7%+ return this year. Redemption technical dominated price action in June.
- In June, BIP.PR.B, CVE.PR.G and PPL.PR.S were redeemed, a nice tail-wind for the market. In addition, the redemptions of CM.PR.Q and TD.PF.D were announced, which should prove supportive to the market.
- During the month of June, we added small amounts of hybrids bonds to improve the liquidity profile of the portfolio and maintained portfolio beta relatively close to home.

***Liquid Alternatives Mandates:***

- **Dynamic Credit Absolute Return Fund**
  - Within the Leveraged Investment Grade Strategy, the Team extended the Fund's credit duration by trimming the CDX Investment Grade protection, capitalizing on favorable seasonal and technical factors supporting credit spreads. Additionally, the Team took advantage of a robust Canadian investment grade primary market to allocate capital to lower beta issuers bringing the fund's credit duration to 5.5 years.
  - US BBB-rated energy credit spreads lagged the broader risk-on rally, while Canadian (Exploration and production (E&P) credit spreads reached new tights. In response, the Team reduced the Fund's exposure to relatively expensive Canadian E&Ps, reallocating capital to US midstream issuers.
  - Additions continued to be made to short-duration, yield-to-call high yield bonds issued by well capitalized borrowers, which offered compelling carry and optionality.
  - The Team also marginally increased the Fund's exposure to US 5 year interest rates. Heightened geopolitical tensions in the Middle East and ongoing uncertainties around US fiscal policy have renewed concerns about persistent inflation, prompting the Federal Reserve to maintain a more hawkish stance. This environment drove interest rates higher, presenting an attractive entry point. This position not only enhances the Fund's yield but also serves as a natural hedge for the Leveraged Investment Grade strategy should US economic growth slow and inflation pressures ease.

- **Dynamic Credit Opportunities Fund**
  - The Fund's Attractive Income strategy continued to generate meaningful income during the month, however, as credit back to pre-Liberation Day tights, we found market opportunities to be less compelling and chose to simply hold our existing positions rather than grow exposures in this strategy.
  - We initiated a position in Macy's bonds as a relative value trade. In our view, current pricing overlooks tangible asset coverage and embedded optionality around asset monetization or strategic activity. We view the position as a mispriced risk, not a turnaround story. We also increased exposure to Coeur Mining as part of an event driven strategy. The company is exiting a capital-intensive phase, with leverage declining and free cash flow improving as production ramps. The combination of improving fundamentals and potential corporate optionality supports continued upside, even in a market where dislocations are scarce.
  - We took advantage of select opportunities in the primary market, adding new issues where there was a clear concession relative to secondary levels. Later in the month, we exited several positions that had rallied with the broader market and reached our valuation targets. With limited potential for further capital appreciation, we rotated out to preserve gains and maintain flexibility for higher conviction ideas.
  - Overall, the fund continues to generate an attractive yield relative to most other credit asset classes while our current high-conviction positioning remains less volatile than High Yield.

| Investment Grade |
|---|
| **Dynamic Ultra Short-Term Bond Fund** |
| **Dynamic Active Ultra Short-Term Bond ETF (DXV)** |
| *Invests in high-quality, liquid, Investment Grade corporate bonds, and uses hedging instruments to maintain duration less than 1 year* |
| **Dynamic Active Discount Bond ETF (DXDB)** |
| *Tax-aware strategy targeting discounted 3-7 year Investment Grade bonds* |
| **Multi-Sector Fixed Income** |
| **Dynamic Credit Spectrum Fund** |
| **Dynamic Active Credit Strategies Private Pool** |
| *Flexible mandates that target opportunities across the credit spectrum including, Investment Grade, High Yield, Hybrids, Prefs, Loans, etc.* |
| **Dynamic Active Crossover Bond ETF (DXO)** |
| *Highly focused mandate that isolates the positive dynamics of bonds residing on either side of the Investment Grade/High Yield threshold* |
| **High Yield** |
| **Dynamic High Yield Bond Fund** |
| *Primarily invests in performing credits rated High Yield and other credit securities with similar characteristics such as Hybrids, Loans, etc.* |
| **Preferred Shares** |
| **Dynamic Preferred Yield Class** |
| **Dynamic Active Preferred Shares ETF (DXP)** |
| *Delivers tax-advantaged income through actively managed exposure in North American Preferred Shares* |
| **Liquid Alternatives** |
| **Dynamic Credit Absolute Return Fund** |
| *Alternative strategy designed to enhance total returns throughout a credit cycle while maintainting an Investment Grade credit rating* |
| **Dynamic Credit Opportunities Fund** |
| **Dynamic Credit Opportunities ETF (DXCO)** |
| *Alternative strategies targeting high conviction opportunities across the credit spectrum, seeking to deliver equity-like returns with low volatility* |

| Fund Characteristics* | Avg. Credit Rating | Yield-to-Maturity* | Int. Rate Duration | Credit Duration |
|---|---|---|---|---|
| Dynamic Ultra Short-Term Bond Fund | A | 3.71% | 0.5 yrs | 2.0 yrs |
| Dynamic Active Ultra Short-Term Bond ETF (DXV) | A | 3.71% | 0.5 yrs | 2.0 yrs |
| Dynamic Active Discount Bond ETF (DXDB) | A- | 3.80% | 4.3 yrs | 3.8 yrs |
| Dynamic Credit Spectrum Fund | BBB- | 4.87% | 4.8 yrs | 3.7 yrs |
| Dynamic Active Credit Strategies Private Pool | BBB- | 4.75% | 4.7 yrs | 3.6 yrs |
| Dynamic Active Crossover Bond ETF (DXO) | BB+ | 4.74% | 5.4 yrs | 4.5 yrs |
| Dynamic High Yield Bond Fund | BB | 5.26% | 4.0 yrs | 3.7 yrs |
| Dynamic Preferred Yield Class | P2M | 4.31% | - | - |
| Dynamic Active Preferred Shares ETF (DXP) | P2M | 4.29% | - | - |
| Dynamic Credit Absolute Return Fund | BBB+ | 5.11% | 2.0 yrs | 5.5 yrs |
| Dynamic Credit Opportunities Fund/DXCO | BB+ | 6.27% | 3.5 yrs | 2.7 yrs |

| Annualized Returns Net of Fees (%) | 1M | 3M | YTD | 1yr | 3yr | 5yr | 10yr | S.I** |
|---|---|---|---|---|---|---|---|---|
| Dynamic Ultra Short-Term Bond Fund | 0.34 | 1.01 | 2.10 | 4.73 | 5.40 | 3.33 | 2.35 | 2.33 |
| Dynamic Active Ultra Short-Term Bond ETF (DXV) | 0.36 | 1.07 | 2.18 | 4.84 | 5.46 | 3.48 | 0.00 | 3.12 |
| Dynamic Active Discount Bond ETF (DXDB) | 0.57 | 0.85 | 2.77 | 8.34 | - | - | - | 7.26 |
| Dynamic Credit Spectrum Fund | 1.53 | 1.69 | 2.78 | 6.80 | 7.87 | 4.68 | 3.27 | 3.64 |
| Dynamic Active Credit Strategies Private Pool | 1.46 | 1.66 | 2.95 | 7.09 | 8.01 | 4.80 | 3.46 | 3.24 |
| Dynamic Active Crossover Bond ETF (DXO) | 1.77 | 2.32 | 3.71 | 7.70 | 8.05 | 4.60 | 0.00 | 4.60 |
| Dynamic High Yield Bond Fund | 1.80 | 2.11 | 2.95 | 6.90 | 8.91 | 5.95 | 3.70 | 5.17 |
| Dynamic Preferred Yield Class | 2.81 | 4.31 | 7.40 | 18.24 | 11.08 | 14.15 | 6.79 | 5.56 |
| Dynamic Active Preferred Shares ETF (DXP) | 2.83 | 4.47 | 7.56 | 18.48 | 11.10 | 14.23 | 0.00 | 7.16 |
| Dynamic Credit Absolute Return Fund | 0.83 | 2.99 | 3.76 | 6.52 | 6.90 | 5.36 | 4.70 | 5.02 |
| Dynamic Credit Opportunities Fund | 1.38 | 2.07 | 3.91 | 6.02 | - | - | - | 8.25 |

Source: 1832 Asset Management LP., data, series F and ETF performance as of June 30, 2025.*YTM before cost of borrow. Fund characteristics include hedging strategies when applicable.

**Inception dates: Dynamic Ultra Short Term Bond Fund F: 2013-09-06, Dynamic Active Ultra Short-Term Bond ETF(DXV): 2018-03-26, Dynamic Active Discount Bond ETF (DXDB): 2022-11-07, Dynamic Credit Spectrum Series F: 2012-12-31, Dynamic Active Credit Strats Pvt Pl F: 2014-06-06, Dynamic Active Crossover Bond ETF (DXO): 2017-01-20, Dynamic High Yield Bond Series: 2002-04-05, Dynamic Preferred Yield Class Series F : 2013-04-10, Dynamic Active Preferred Shares ETF: 2017-01-20, Dynamic Credit Absolute Return F: 2014-01-01, Dynamic Credit Opportunities F: 2023-09-25

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