

Credit Crunch

Dynamic Specialized Credit Team

November 2025 Commentary

Highlights

Credit Dispersion

November credit spreads offered a first glimpse of modest dispersion since the wild “Liberation Day” dislocation event earlier this year. At the index level, investment grade and high yield credit spreads traded within a range of approximately 5bps and 25 bps respectively. Both asset classes closed the month towards the tighter end of recent ranges as investors looked forward to the potential of more accommodative central bank policy in the near-term.

Beneath the surface, it was a different story with trading activity in lower-rated credits exhibiting growing signs of caution. Bonds rated CCC underperformed during the month as investors shied away from the riskiest debt, driven partly by frayed nerves coming from recent bankruptcies and fraud-related headlines in the previous month, which have added a layer of uncertainty around credit quality. Highly levered credits in higher-beta sectors such as Building Products and Chemicals led the sell-off as earnings in both sectors continue to be negatively impacted by low demand and overcapacity. Credit in riskier companies owned by private equity also underperformed. Credit spreads in AI-related issuers in the Technology sector also widened, as massive debt-financed spending in AI and cloud computing infrastructure sparked investor concerns regarding a risky mix of over-spending coupled with over-leveraged balance sheets.

November proved to be a balancing act: optimism from rate cuts and accommodative central bank policies was offset by growing concerns in lower-rate and riskier credit, setting up a credit market tone that is cautiously optimistic but keenly aware of shifting risks. Our defensive positioning worked well across the mandates as we have avoided riskier credits, more economically sensitive sectors, and over-leveraged balance sheets. We added modest exposure to our favorite lines during the month and are evaluating opportunities in higher-beta issuers where the recent selloff has shifted valuations more in our favour.

Portfolio Updates

Ultra-Short Term Investment Grade Mandates:

- Continued to focus on high-quality issuers that provide stability and predictable cash flows.
- Focused on investing in 2-3 years maturities given tight credit spreads and flat credit curve.
- Increased the Fund's weight in short duration securitized products at attractive spreads.
- Yield generated by the portfolio is 3.09%, well above overnight rate in Canada at 2.25%.
- Well-positioned to provide competitive yields relative to cash-equivalent alternatives—including HISA and GIC—while maintaining daily liquidity.

Discounted Investment Grade Mandates:

- Average bond price of \$94.74 for the US mandate and \$99.60 for the Canadian mandate. Discounts versus benchmarks were close to \$3.50 for both mandates highlighting the strategy's inherent tax awareness.
- Took advantage of attractively priced new issues in the Canadian mandate to generate additional alpha.
- Increased our weight in US treasuries in the US mandate.

Multi-Sector Fixed Income / High Yield Mandates:

- Continued to maintain defensive positioning relative to benchmarks with credit selection efforts focused on higher quality issuers with stable earnings and strong credit profiles.
- Took profits in select Canadian High Yield names where valuations had become stretched and upside convexity was largely non-existent.
- Purchased high quality US High Yield issuers where valuations had sold off, adding to certain existing positions at attractive levels and entering into new positions for issuers we have been monitoring for a while, where valuations finally reached levels skewed in our favor.

Preferred Share Mandates:

- Continued to pick away at LRCNs, Institutional preferred shares and hybrids given their more attractive medium-term risk-reward profiles. \$CAD 25 preferred shares represent less than 80% of the portfolio.
- Delivered strong relative and absolute performance year-to date.
- Supporting the preferred share market: 1) redemptions larger than new issuance flows and 2) resilient credit spreads

Liquid Alternatives Mandates:

- **Dynamic Credit Absolute Return Fund**

- Increased slightly the portfolio's credit exposure by purchases of specific issuers on the primary market and Canadian Bank LRCN while reducing expensive short dated corporate bonds to reduce leverage.
- Benefited from an early takeout surprise in the bonds of MEG Energy which were taking out at a significant premium to par following the closing of Cenovus' acquisition of MEG during the month.
- Raised short-duration securitized products exposure. This allocation provides enhanced diversification and incremental yield for investors without taking too much risk. The monthly prepayment profile enhances the portfolio's overall liquidity.
- Continued to increase the allocation to short-duration, yield-to-call high yield bonds issued by well-capitalized borrowers, capturing opportunities that offer attractive carry and favorable optionality.

- **Dynamic Credit Opportunities Fund**

- Benefited from an early takeout surprise in the bonds of MEG Energy which were taken out at a significant premium to par following the closing of Cenovus' acquisition of MEG during the month.
- Our position in Greenfire's 12% 2028 bonds will be called at a massive \$6 premium to par in mid-December following the company's recently announced rights offering with proceeds used to delever the balance sheet. This successful investment reflects the type of attractively priced "off-the-run" opportunities that our in-depth, bottom-up research process can identify.
- During the month, we took modest sales within our Relative Value strategy in issuers where valuations were no longer attractive and upside was constrained.

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) / Dynamic Active US Discount Bond ETF (DXDU.U)

Tax-aware strategy targeting discounted 3-7 year Investment Grade bonds

Multi-Sector Fixed Income

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 maintaining 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	3.09%	0.4 yrs	1.5 yrs
Dynamic Active Ultra Short-Term Bond ETF (DXV)	A	3.08%	0.4 yrs	1.5 yrs
Dynamic Active Discount Bond ETF (DXDB)	A-	3.68%	4.2 yrs	3.9 yrs
Dynamic Active US Discount Bond ETF (DXDU.U) ¹	BBB+	4.71%	4.3 yrs	3.9 yrs
Dynamic Active Credit Strategies Private Pool	BBB-	4.58%	4.5 yrs	3.9 yrs
Dynamic Active Crossover Bond ETF (DXO)	BB+	4.76%	5.3 yrs	5.1 yrs
Dynamic High Yield Bond Fund	BB	5.10%	4.0 yrs	3.9 yrs
Dynamic Preferred Yield Class	P2M	4.61%	-	-
Dynamic Active Preferred Shares ETF (DXP)	P2M	4.59%	-	-
Dynamic Credit Absolute Return Fund	A-	5.50%	1.5 yrs	4.1 yrs
Dynamic Credit Opportunities Fund/DXCO ¹	BBB-	7.32%	3.8 yrs	2.9 yrs

Annualized Returns Net of Fees (%)	1M	3M	YTD	1yr	3yr	5yr	10yr	S.I.**
Dynamic Ultra Short-Term Bond Fund	0.25	0.91	3.71	3.99	5.25	3.30	2.63	2.38
Dynamic Active Ultra Short-Term Bond ETF (DXV)	0.24	0.93	3.84	4.13	5.34	3.43	-	3.16
Dynamic Active Discount Bond ETF (DXDB)	0.20	2.09	5.86	6.23	-	-	-	7.27
Dynamic Active Credit Strategies Private Pool	0.33	1.73	5.93	5.40	7.48	3.93	4.07	3.38
Dynamic Active Crossover Bond ETF (DXO)	0.31	1.80	6.82	6.07	7.86	3.47	-	4.73
Dynamic High Yield Bond Fund	0.37	1.37	5.84	5.51	8.19	4.72	4.54	5.20
Dynamic Preferred Yield Class	-0.07	2.80	14.56	17.63	15.50	11.78	7.95	5.91
Dynamic Active Preferred Shares ETF (DXP)	-0.06	2.82	14.79	17.83	15.68	11.89	-	7.60
Dynamic Credit Absolute Return Fund	0.29	1.15	5.94	6.55	5.97	4.77	4.76	5.03
Dynamic Credit Opportunities Fund	0.43	1.26	6.86	7.67	-	-	-	7.99

Source: 1832 Asset Management LP., data, series F and ETF performance as of November 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 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. Dynamic Credit Opportunities ETF (DXCO): 2024-10-23, Active U.S. Discount Bond ETF (DXDU.U): 2025-08-26. ¹Investment fund regulations restrict the presentation of performance figures until a fund reaches its one-year anniversary. YTM is in USD.

advisor.dynamic.ca

Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds, including ETFs. Please read the prospectus before investing. The indicated rates of return are the historical annual compound total returns including changes in unit values and reinvestment of all distributions does not take into account sales, redemption or option changes or income taxes payable by any security holder that would have reduced returns. Mutual funds and ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

Series A units are available for purchase to all investors, while Series F units are only available to investors who participate in eligible fee-based or wrap programs with their registered dealers. Differences in performance between these series are primarily due to differences in management fees and fixed administration fees. Performance results for Series F units may also appear higher than for Series A units as the management fee does not include the trailing commission.

Views expressed regarding a particular company, security, industry or market sector are the views of the writer and should not be considered an indication of trading intent of any investment funds managed by 1832 Asset Management L.P. These views should not be considered investment advice nor should they be considered a recommendation to buy or sell. These views are subject to change at any time based upon markets and other conditions, and we disclaim any responsibility to update such views.

To the extent this document contains information or data obtained from third party sources, it is believed to be accurate and reliable as of the date of publication, but 1832 Asset Management L.P. does not guarantee its accuracy or reliability.

Dynamic® is a registered trademark of The Bank of Nova Scotia, used under license by, and is a division of, 1832 Asset Management L.P.

©Copyright 2025 The Bank of Nova Scotia. All rights reserved