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# Dynamic Global Fixed Income Fund

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Director & Portfolio Manager



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# Firm & Fund Overview

# Payden & Rygel

## Firm Overview

### OUR FIRM

#### ESTABLISHED IN 1983

Los Angeles-based, offices in Boston, London, Milan

#### \$162 BILLION AUM

A fully-resourced and flexible firm

#### ONE GOVERNANCE CENTER

Clients have direct access to business owners

#### 100% EMPLOYEE OWNED

### OUR CULTURE

#### GLOBAL PERSPECTIVE ON INVESTING

Regardless of benchmark

#### COLLABORATIVE APPROACH

Sharing best ideas, constructive debate

#### EXCEPTIONAL RETENTION

of talented people and clients

#### ALIGNMENT OF INTERESTS

Fully focused on our clients

### OUR GLOBAL REACH

#### ★ PAYDEN & RYGEL OFFICES



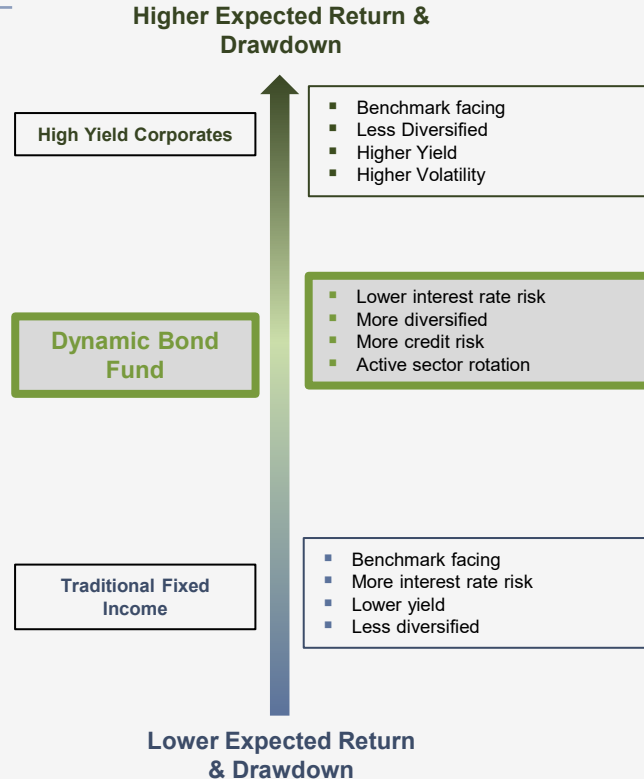
# Dynamic Global Fixed Income Fund Overview

**PURPOSE** Global portfolio seeking to balance stable returns and capital preservation

**KEY ATTRIBUTES** Fixed income only  
Public markets, no leverage  
Benchmark agnostic  
Investment Grade Rated Fund  
Limited interest rate sensitivity

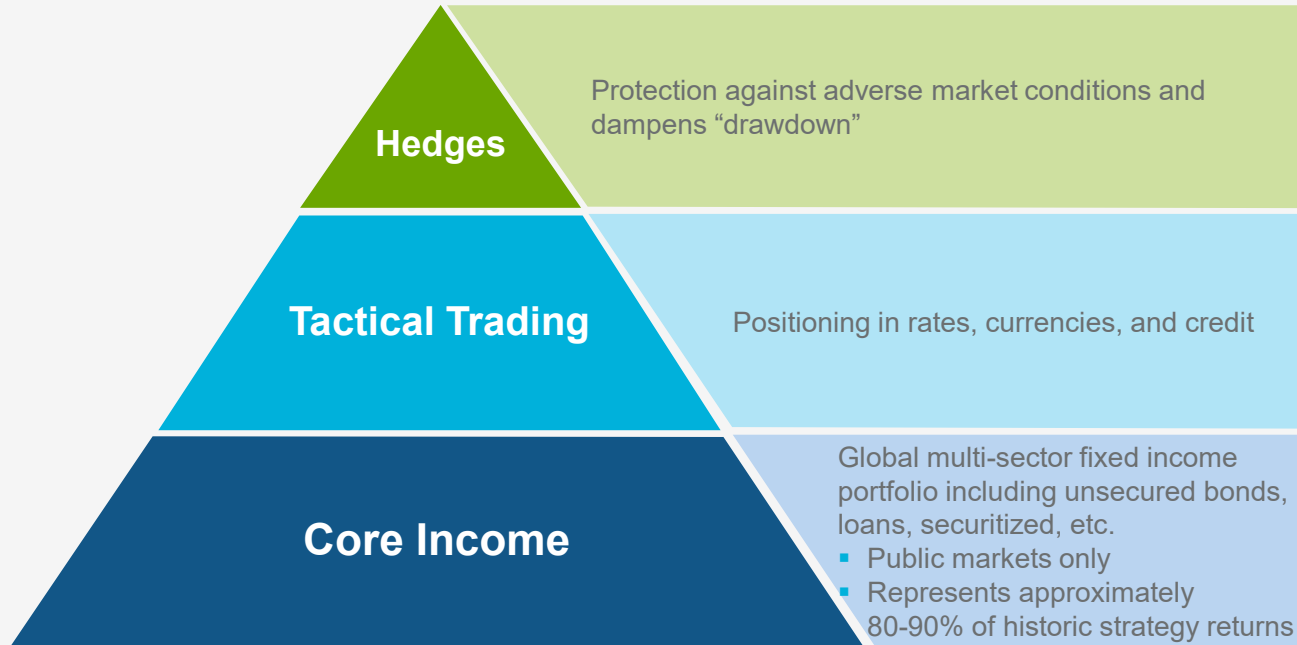
**KEY ASSET CLASSES** Investment Grade Corporates  
High Yield Bonds and Bank Loans  
Emerging Market Debt  
Securitized Credit  
Developed Market Sovereign Debt

**BENEFITS** Broad fixed income like returns with less volatility  
Dynamic asset allocation  
Ratings and sector limits for risk management



# Strategy Components

## Simple by Design





# Fund Positioning & Themes



# Strategy Considerations

## Environment

- Elevated nominal and real yields in DM Gov't bonds versus prior 20yr period, less so versus prior 40yrs.
- Inverted yield curves with peak central bank target rates likely in rear-view mirror.
- Positive correlations between risky assets (Equities & High-Yield Corporate Bonds) and less risky assets (Treasuries).
- Valuations look broadly fair-to-rich across Equities and Credit. Liquidity premium depressed.

## Beta and Sector Considerations

- **Interest Rate Duration:** “Peak rates” should be separated between front and long-end.
- **Credit Beta:** Valuations do not look compelling. More liquidity and high-quality exposure warranted.
- **Credit Sectors:** Emerging market poised to outperform corporate credit. Consumer ABS looks good.

# Correlation Between Rates and Risk Assets

## Inflation Matters

### Key Considerations

- History suggests the correlation between risk free assets (US Treasuries) and risk assets (Equities and HY Corporate Bonds) is influenced by inflation, with correlations moving from negative to positive as inflation rises. **(left table)**
- Negative correlations in the 2000 and 2010 decades are anomalies when compared to other decades. **(right table)**
- Positive correlations were ignored in 2020 and 2021 as asset prices rose, only to fall sharply in 2022.
- The prevailing level of inflation is a key ingredient when considering portfolio construction decisions, namely the role that interest rate risk plays within both balanced and bond-specific portfolios.**

### Correlations Across Inflation Regimes

| Inflation Regime | S&P 500 vs US Treasuries | US HY Corp vs US Treasuries |
|------------------|--------------------------|-----------------------------|
| <0%              | -0.67                    | -0.60                       |
| 0-2%             | -0.32                    | -0.18                       |
| 2-4%             | 0.14                     | 0.22                        |
| 4-6%             | 0.25                     | 0.41                        |
| 6+%              | 0.25                     | 0.84                        |

### Correlations Across Decades

| Decade | Average CPI | S&P 500 vs US Treasuries | US HY Corp vs US Treasuries |
|--------|-------------|--------------------------|-----------------------------|
| 2020s  | 4.4         | 0.31                     | 0.33                        |
| 2010s  | 1.8         | -0.45                    | -0.11                       |
| 2000s  | 2.6         | -0.23                    | -0.15                       |
| 1990s  | 3.0         | 0.35                     | 0.23                        |
| 1980s  | 5.6         | 0.23                     | 0.76                        |
| 1970s  | 7.8         | 0.41                     |                             |

\*Data Sources: S&P 500 Index, Ice BAML US Treasury 7-10yr Index, Ice BAML US HY Corp 100 Index, BLS US Core CPI (YoY), Bloomberg

\*\*Correlations utilizing monthly total returns, start month 12/31/1975 for S&P 500 and US Treasuries, and 1/31/1980 for HY Corp

\*\*\*Data as of 31 March 2024



# Macro Considerations

## US Exceptionalism

# US Macroeconomic Backdrop

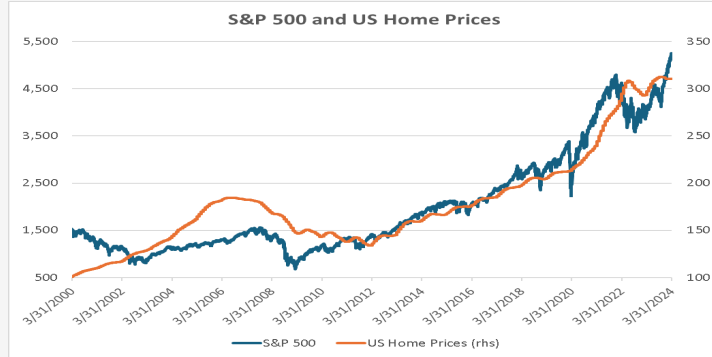
## Everything Now

- **“Everything Now”** is the 5<sup>th</sup> studio album of Montreal natives Arcade Fire released in 2017
- Many believe the album reflects the **overstimulated, cannibalistic quality of the modern capitalist world**
- Chorus:
  - **Everything Now – I need it**
  - **Everything Now – I want it**
  - **Everything Now – I can’t live without**
- Sounds a lot like expectations from markets and investors today:
  - **Asset prices must go higher**
  - **Interest rates must go lower**
  - **The Fed put is still alive**
  - **We need it, we want it, we can’t live without it... “Everything Now”**



# Financial Conditions

## Asset Prices Have Risen Across The Board



### Top Left Chart

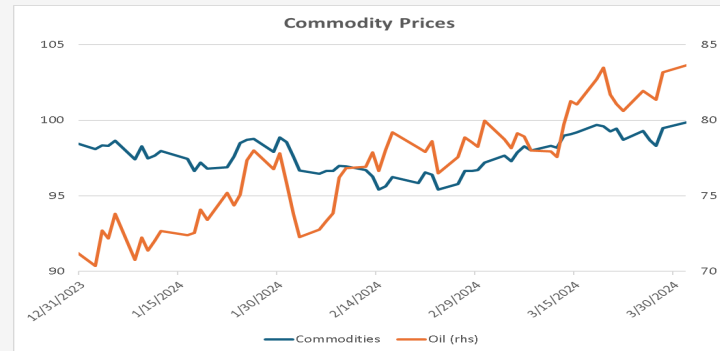
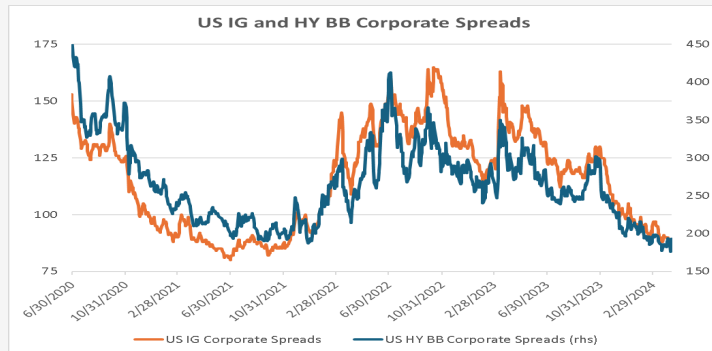
- US Equities are at an all-time high
- US Home prices are at an all-time high

### Bottom Left Chart

- US Credit spreads are at post-Covid tight and nearing 20yr tight

### Bottom Right Chart

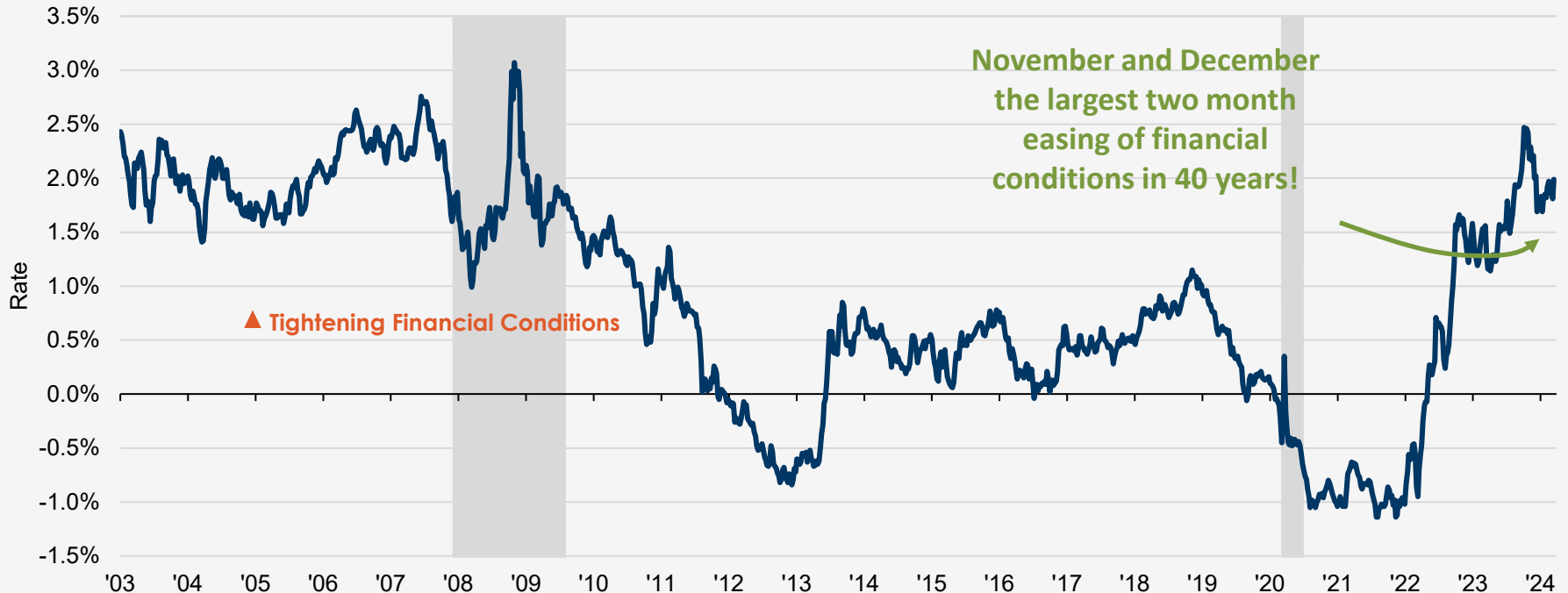
- Commodity Prices are accelerating
- Middle East tensions are a tail risk for oil



# Financial Conditions

## Leading To Dramatic Easing At The End Of 2023

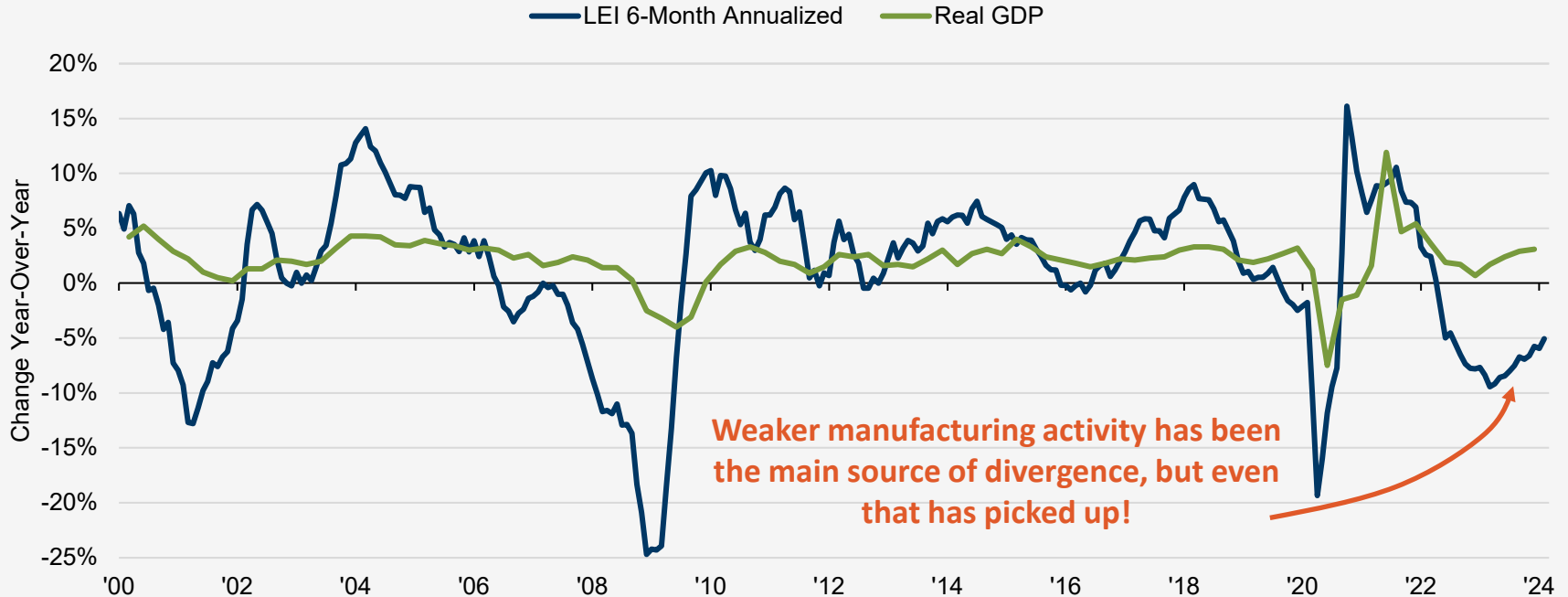
### U.S. Government 10-Year Treasury Real Yield (A Proxy For “Financial Conditions”)



# Growth

## U.S. Real GDP Remains Above Potential, With Leading Indicators Rising

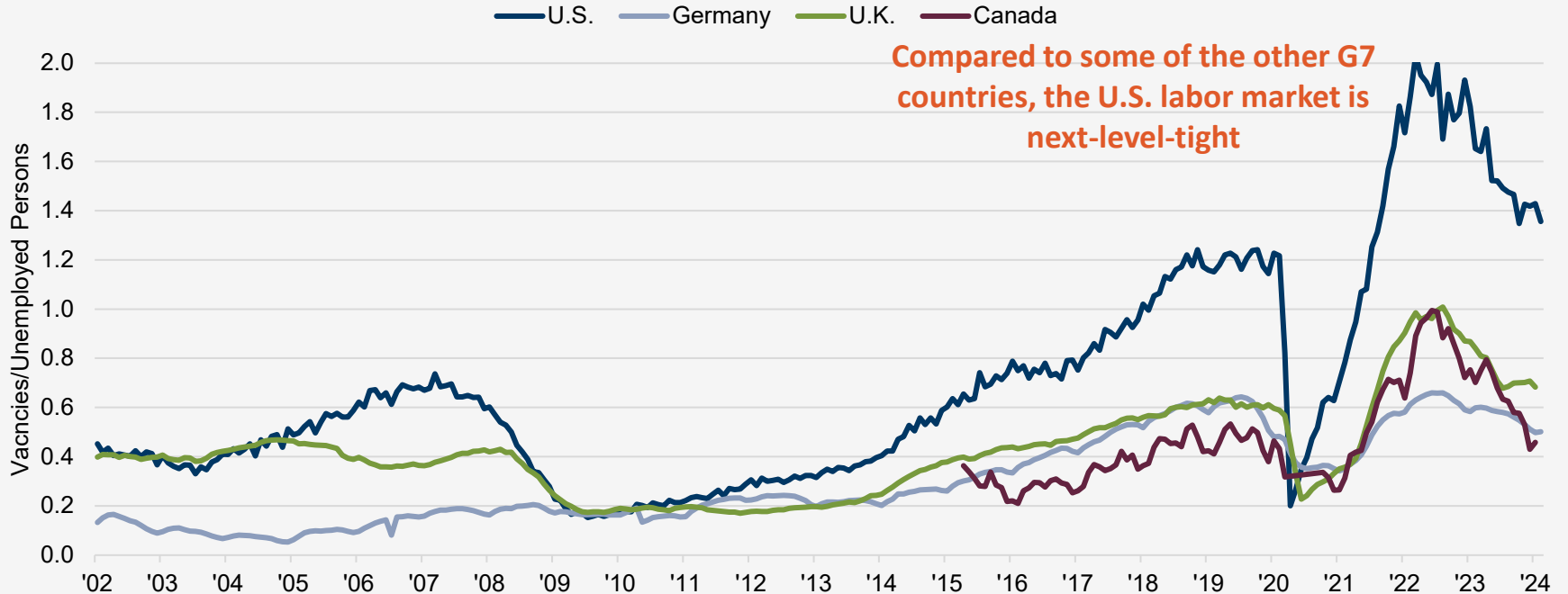
### Conference Board's Leading Economic Indicator (LEI) Versus Real GDP



# Employment

## U.S Remains Strong, Softening In Germany And Canada

### Job Vacancies to Unemployed Persons by Country

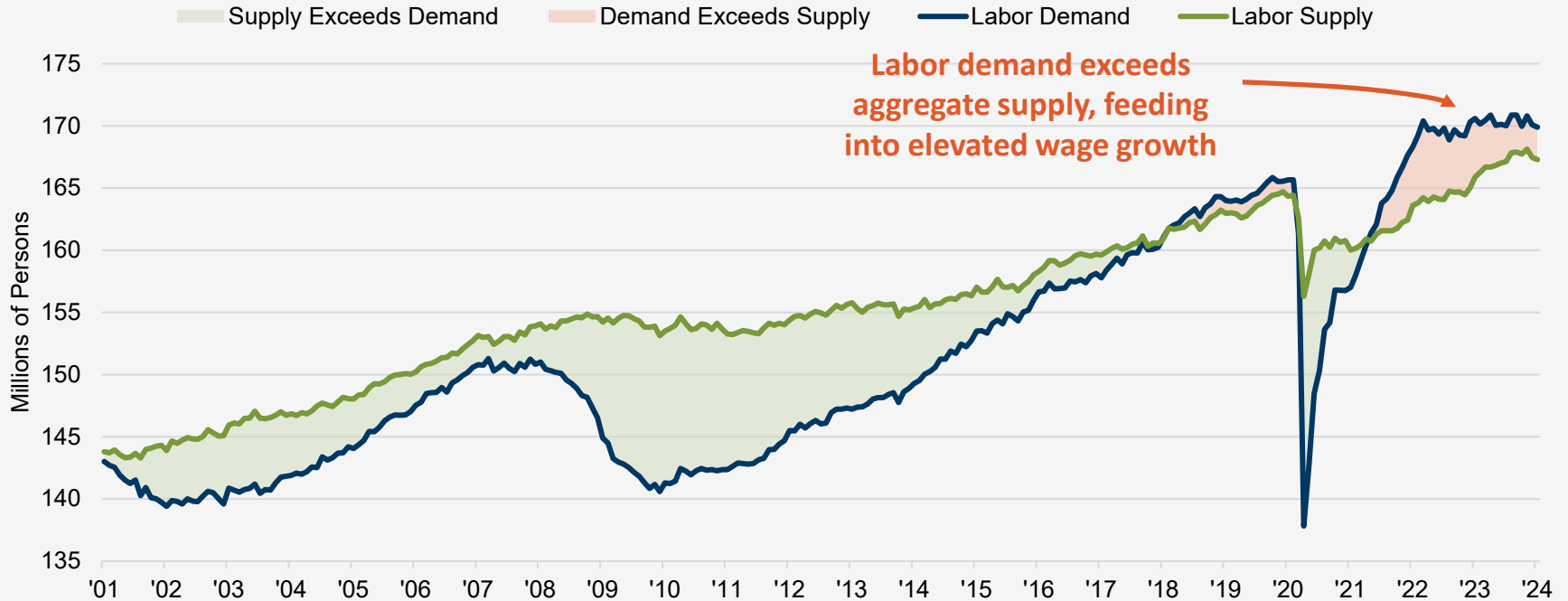




# Employment

## Uncommon Supply-Demand Imbalance In The U.S.

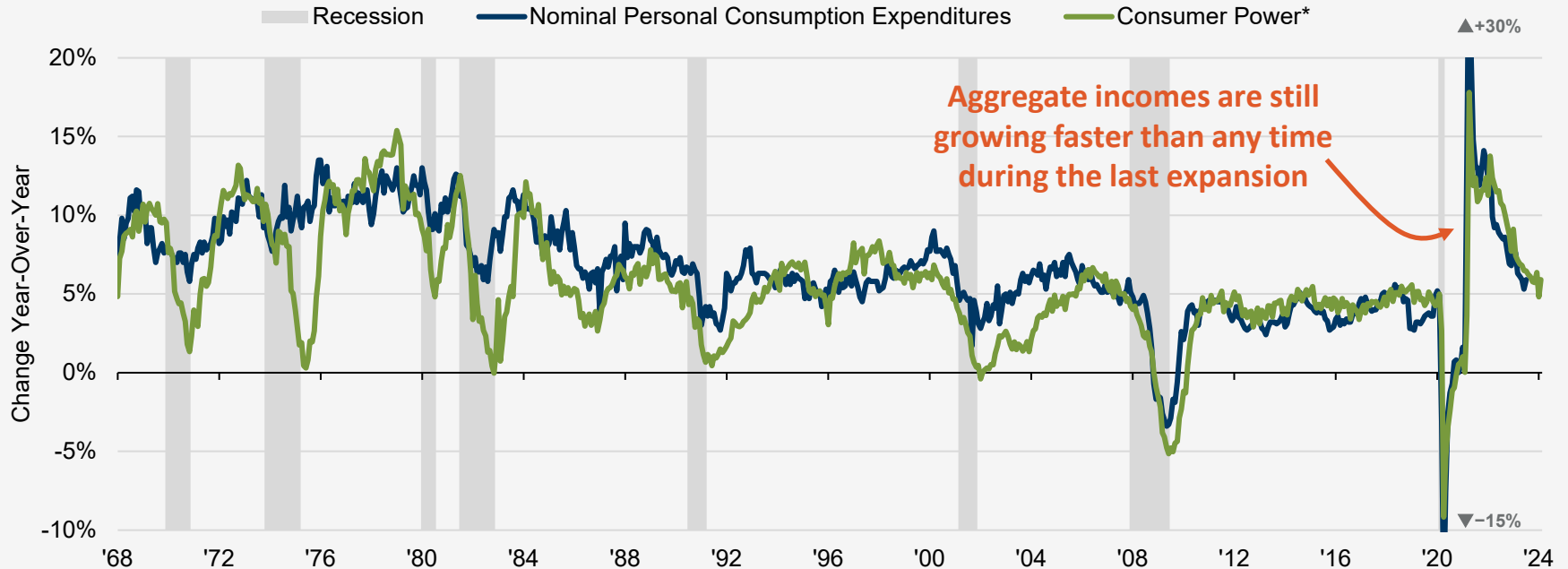
### U.S. Total Labor Demand\* Versus Labor Supply†



# Consumer

## Elevated Income Growth Driving Consumption In The U.S.

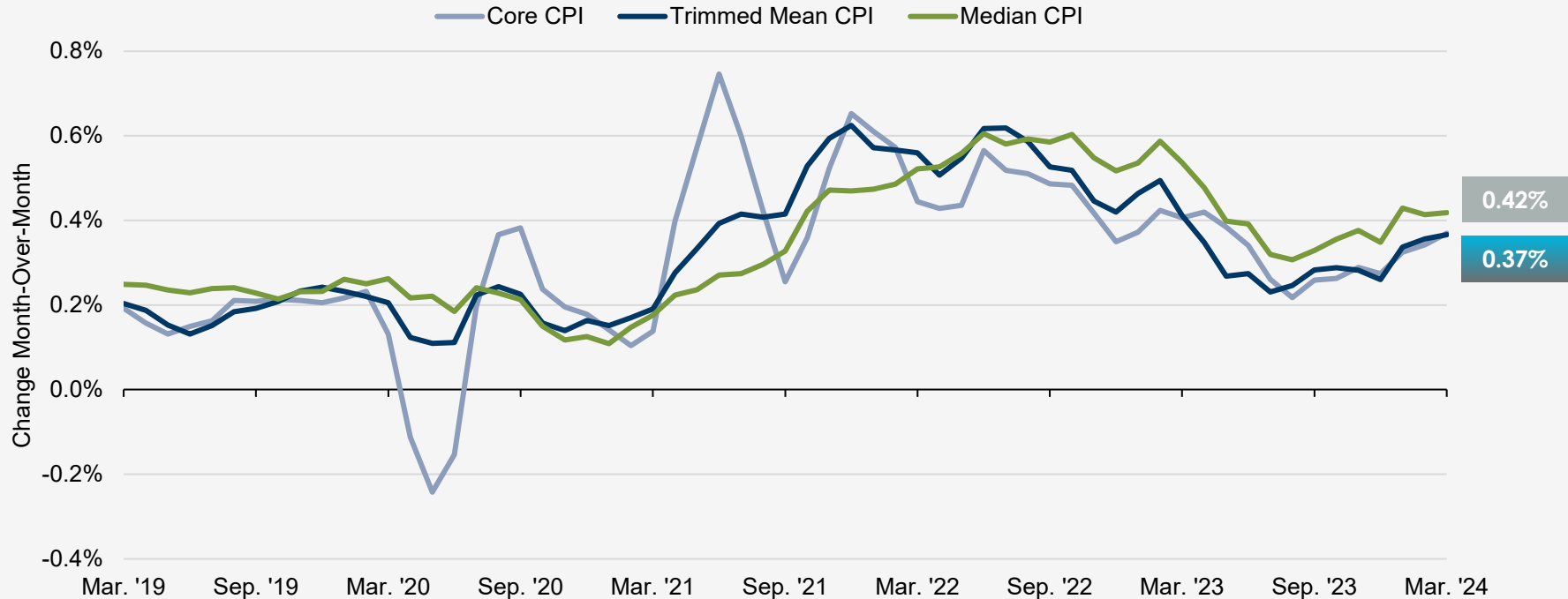
### Nominal Personal Consumption Expenditures and Aggregate Consumer Income (Consumer Power\*)



# Inflation

## Although Re-Accelerating In The U.S. in 2024

### Monthly Change in Trimmed, Median, and Core CPI, 3-Month Moving Average





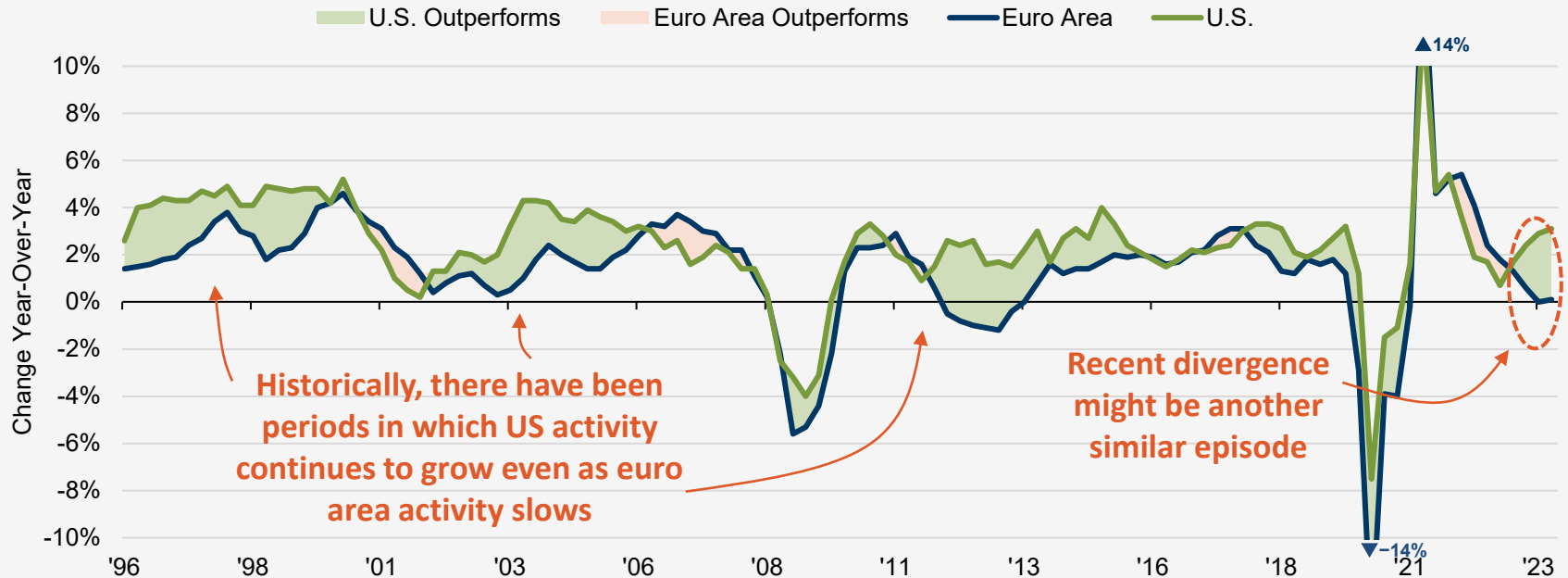
# Macro Considerations

## Global Divergence

# Growth

## Euro Area Slowing, With U.S. Growth Diverging

### U.S. Versus Euro Area GDP Growth



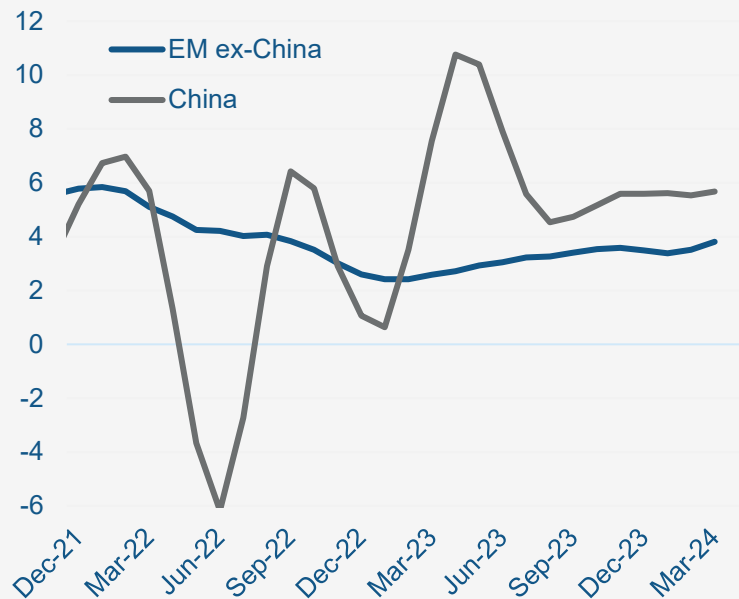
# Growth

## Resilience in EM vs DM & Less Linked to China

**Current Activity Indicator: EM ex-China vs DM**  
Percent, 3m/3m saar



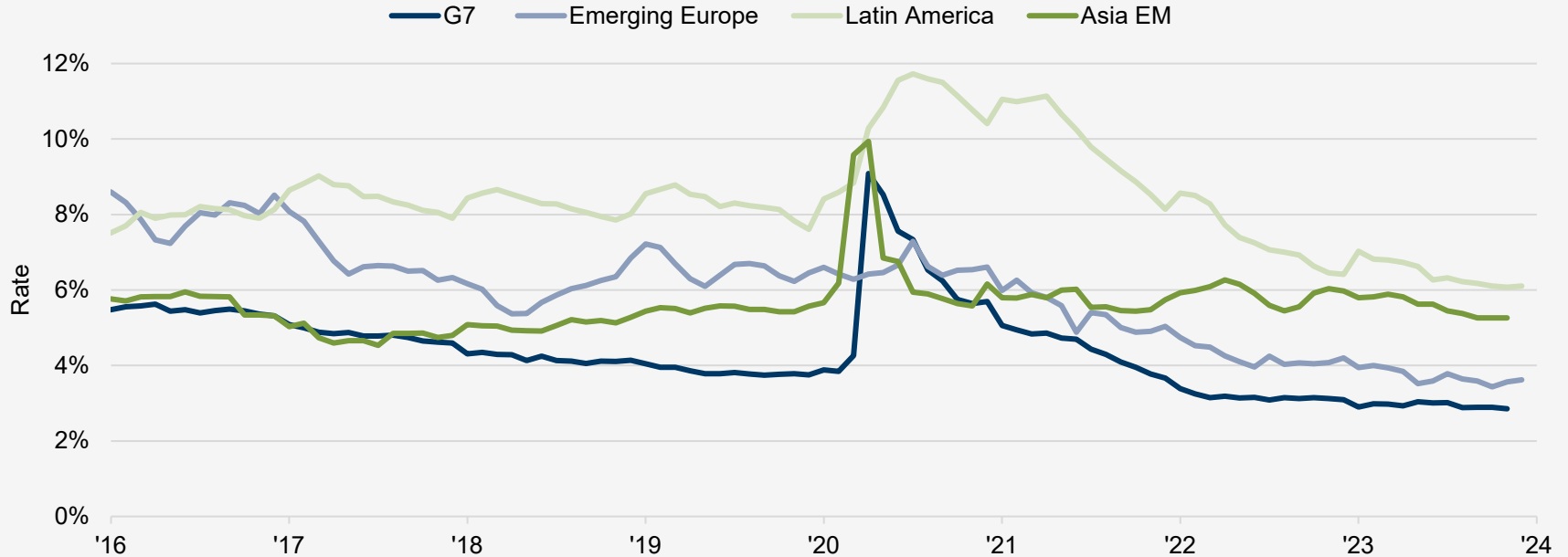
**Current Activity Indicator: EM ex-China vs China**  
Percent, 3m/3m saar



# Employment

## Emerging Economy Labor Markets Are Tight

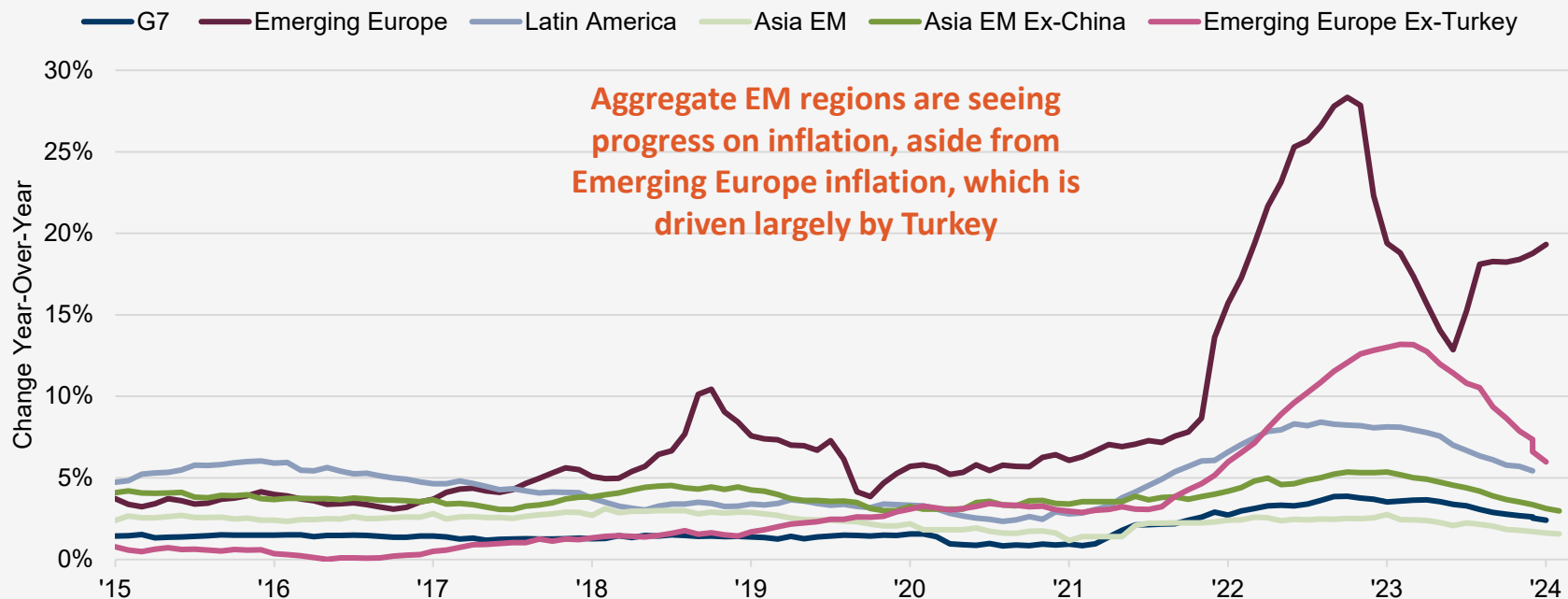
### Unemployment Rate By Various Aggregate Regions And Countries



# Inflation

## Slowing Sharply Across Emerging Markets

### Core Consumer Price Index (CPI) By Aggregate Region\*

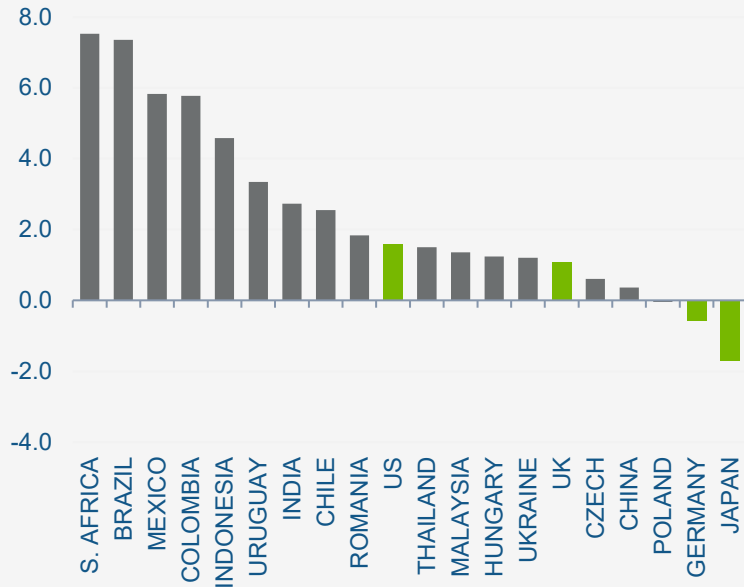




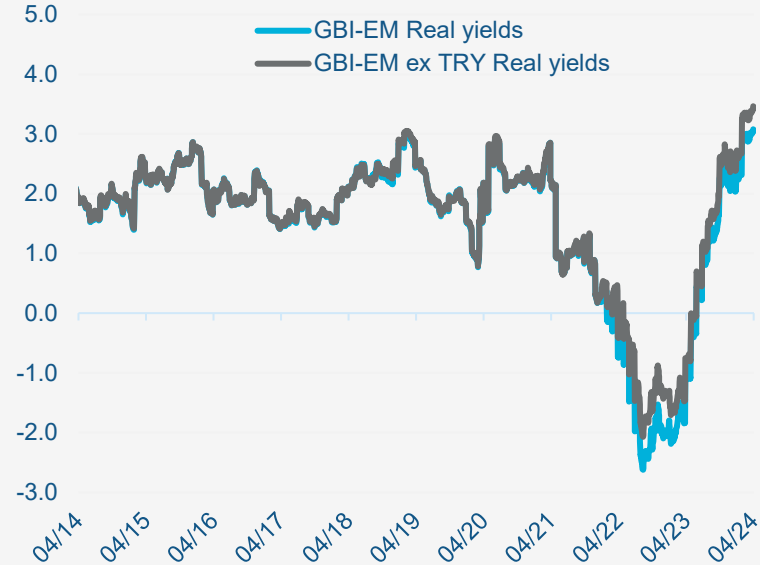
# Elevated Real Yields

## Emerging Market Local Markets

Real Yields in EM and DM\* (%)



GBI-EM Real Yields Near Long-Run Highs\* (%)



\*Real yields are nominal 10 year bonds less average inflation in 2024-2025

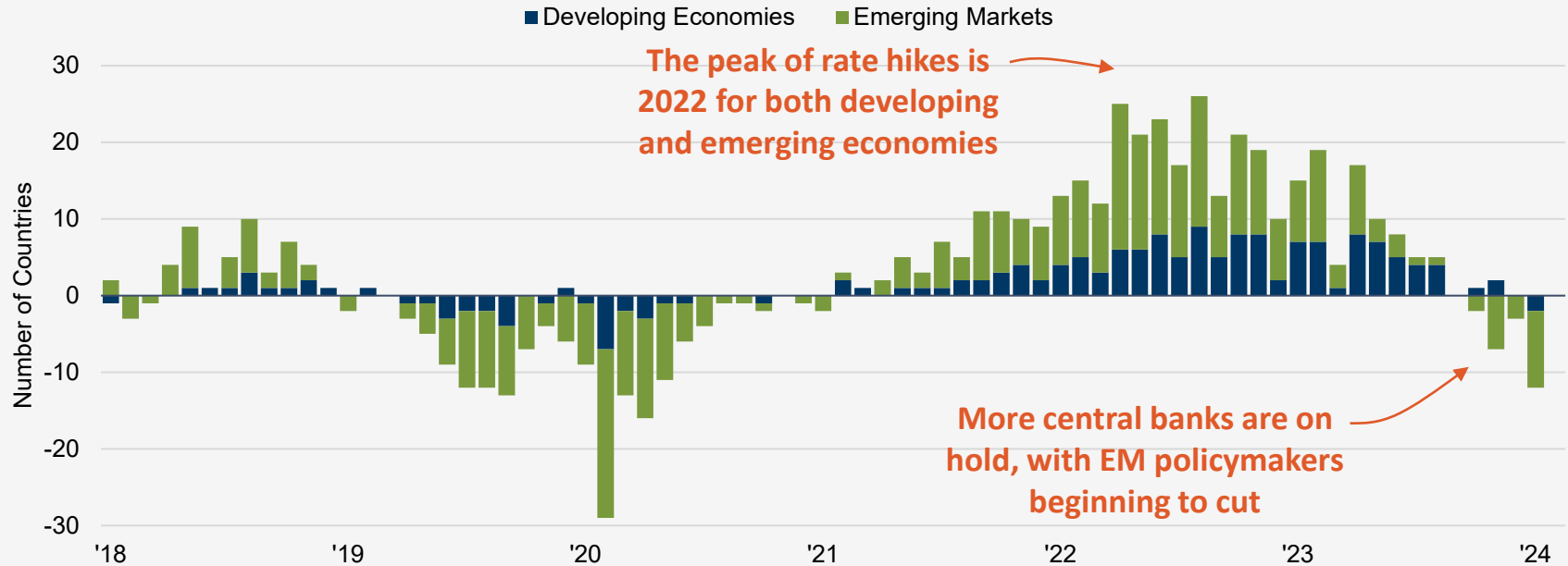
As of 31 March 2024

Source: IMF, Bloomberg, Payden & Rygel, JP Morgan

# Monetary Policy

## Emerging Markets in Easing Mode

### Number Of Central Banks Hiking Minus Easing



# Default Cycle

## Credit Events in Emerging Markets Since 2020

| Country*  | Date   | Amount of Bonded Debt Impacted (\$mm) | Index weight before credit event <sup>1</sup> | Price at lows <sup>2</sup> | Price today <sup>2</sup> |
|-----------|--------|---------------------------------------|---|----------------------------|--------------------------|
| Argentina | Feb-20 | \$108,766                             | 1.4%  | 17.4                       | 45.7                     |
| Lebanon   | Mar-20 | \$31,314                              | 0.5%  | 5.8                        | 6.6                      |
| Ecuador   | Apr-20 | \$17,283                              | 0.8%  | 30.0                       | 54.7                     |
| Suriname  | Jul-20 | \$675                                 | 0.0%  | 31.1                       | 92.6                     |
| Belize    | Aug-20 | \$527                                 | 0.0%  | 39.0                       | n/a                      |
| Zambia    | Nov-20 | \$3,000                               | 0.2%  | 35.0                       | 72.8                     |
| Belize    | Sep-21 | \$556                                 | 0.0%  | 39.0                       | n/a                      |
| Russia    | Mar-22 | \$27,291                              | 3.1%  | 10.7                       | 62.3                     |
| Sri Lanka | Apr-22 | \$8,650                               | 0.8%  | 22.9                       | 57.2                     |
| Belarus   | Jul-22 | \$3,250                               | 0.4%  | 5.5                        | 41.0                     |
| Ukraine   | Aug-22 | \$19,588                              | 2.2%  | 15.6                       | 25.0                     |
| Ghana     | Dec-22 | \$13,742                              | 0.9%  | 29.1                       | 48.5                     |
| Ethiopia  | Dec-23 | \$1,000                               | 0.1%  | 50.4                       | 70.2                     |
|           |        | <b>\$235,642</b>                      | <b>10.4%</b>                                  |                            |                          |

1 - Shaded cells show weight of countries involved in Russia-Ukraine war as of Jan 2022.

2 - Prices reflect an indicative USD security. Suriname is price of new bond.

Source: Bloomberg, Moody's, Payden & Rygel

# Conclusions

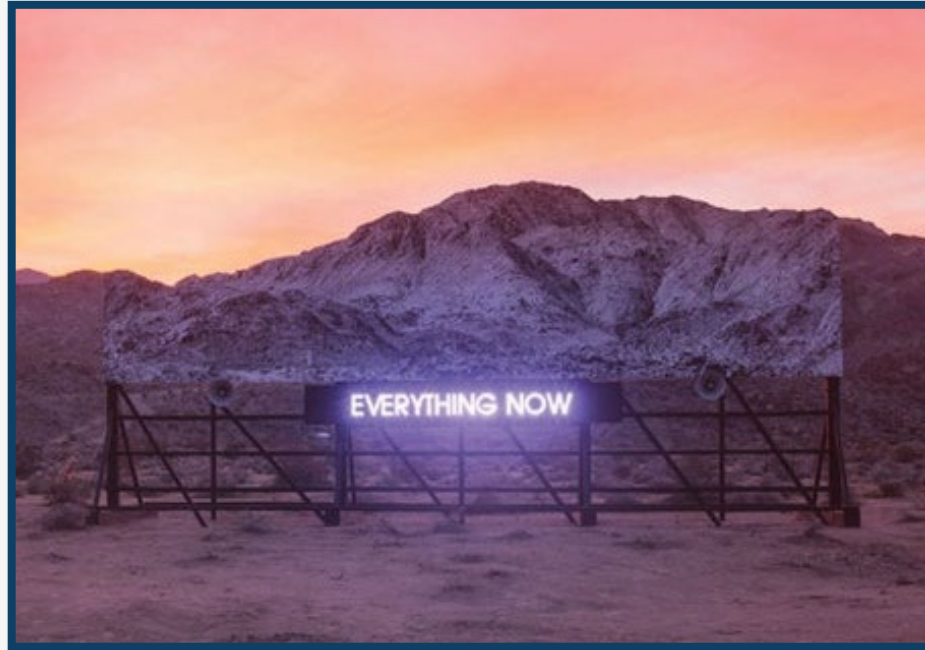
## Interest Rate Duration

- Duration should be carefully considered today versus prior periods
- Long-end Treasury yields in the US have not peaked. The front-end looks more compelling as a diversifier
- Inflation protected securities look attractive with long-term inflation expectations anchored around 2.5%
- Valuations are broadly rich across Equities and Fixed Income credit sectors

## Credit Risk

- Lower degree of directional credit risk given starting spread level and elevated risk-free rates
- Mindful of asset classes highly correlated to interest rates like Bank Loans and Commercial Real Estate
- Emerging Market Debt poised for resilience given global growth and default cycle in rear-view mirror
- Consumer ABS remains attractive in the US as a short maturity asset class with good liquidity and yield

**Thank You!**



**Enjoy the Conference!**

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