



# Ninepoint Enhanced Equity Strategy

August 2018 Commentary

August was a strange month for global financial markets as currencies, credit and pretty much every equity market outside the United States reflected growing concern over rising instability in emerging markets. Both Turkey and Argentina devolved into full blown crises last month with short term financing rates exploding to 20% and 60% respectively. Turkey continues to insist that they can dictate their own monetary and fiscal policies while also keeping their currency stable. Regardless of whether they believe this or not, the Turkish Lira has plummeted over 50% and will continue to drop until Turkey's economy adjusts (most likely by a collapse in growth). Argentina is now broken (again) and is begging for IMF help. Equity markets in China are in bear market territory and currencies and equity markets in India, the Philippines, Indonesia, Russia and Brazil are not far behind.

Despite anxiety elsewhere, U.S. equity markets continued their run from July climbing 3% in August to close the month near their all-time highs. Market breadth has remained challenging, with a relatively small segment of the market accounting for the lion's share of the year's gains. A market joke has been that "the rule of 10" is in play whereby growth stocks trading at a multiple of 10 or more times sales mostly go higher while value stocks trading at 10 or less times earnings largely go nowhere or down. The lack of confirmation from credit markets has also been puzzling. Credit spreads for Investment Grade (IG) bonds were at their best levels when the U.S. equity market peaked back in January and then widened out as the equity market sold off in March. Since then however, equity markets have rallied back to their highs while IG bond spreads have yet to recover even half of their widened spreads. Maybe equity markets are right and credit markets are slow to catch up but we think it more likely that markets are simply paying more attention to global instability while U.S. equity markets remain entirely focused on the growth picture at home.

Closer to home, the TSX lost roughly 1% in August while crude oil prices climbed sharply with WTI up over 3% from July and Brent crude up over 4%. Despite the continued strong performance of crude oil prices, stocks of oil producers and service companies continue to lag substantially. Crude oil prices are up roughly 20% so far this year and yet energy stocks have barely budged (the XEG energy producers ETF is up less than 3% YTD). With inventories shrinking, supply growth well below that of demand and the U.S. government set to enact further sanctions on Iran later this year, we continue to believe the fundamentals supporting higher crude oil prices remain in place. Our portfolio is well positioned to benefit from improving sentiment toward energy as this thesis plays out.

Although challenging for fundamentally oriented investors focused on absolute value and risk/reward tradeoffs like ourselves, we also know we are not overpaying for the future cash flow stream of our companies and that our overall portfolio construction using market hedging instruments will drive attractive risk/reward payouts over time. The good news is that our hedging

## Investment Team

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**John Wilson, MBA**  
Co-CEO, Managing Partner,  
Senior Portfolio Manager



**Colin Watson,**  
Vice President, Associate  
Portfolio Manager

costs have remained below normal so far year to date as more active trading has been able to take advantage of opportunistic pricing levels as we enter and exit positions.

Until next month,

## The Enhanced Team

### COMPOUNDED RETURNS<sup>1</sup>

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-0.5%	-0.9%	0.5%	0.6%	6.8%	1.6%	4.2%	5.9%
Index	1.4%	8.1%	5.2%	8.5%	17.5%	12.4%	14.0%	14.6%

<sup>1</sup> All returns and fund details are a) based on Class/Series F shares/units; b) net of fees; c) annualized if period is greater than one year; d) as at August 31, 2018; e) inception date for Ninepoint Enhanced Equity Class is 04/16/12.<sup>2</sup> 50% of S&P/TSX Composite TRI; 50% of S&P 500 TRI CAD and is computed by Ninepoint Partners LP based on available index information.

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