



Ninepoint Fixed Income Strategy

August 2019 Commentary

Monthly commentary discusses recent developments across both the **Diversified Bond** and **Credit Income Opportunities Funds**.

Macro

Trade tensions continue to be top of mind. As of September 1st, about half of the proposed tariffs on the last \$300bn of Chinese exports to the U.S. have been imposed, with the rest deferred to December 15th, a goodwill gesture by President Trump to limit impacts on Christmas shopping. An interesting volte-face given he has always argued that the Chinese were bearing the bulk of the tariff's costs. As expected, the Chinese have retaliated to this escalation, triggering another off-the-cuff retaliation by Trump, threatening to raise all existing tariffs from 25% to 30% by October 1st 2019. These latest developments are a perfect example of how trade wars can quickly get out of control.

Investment Team



Mark Wisniewski,
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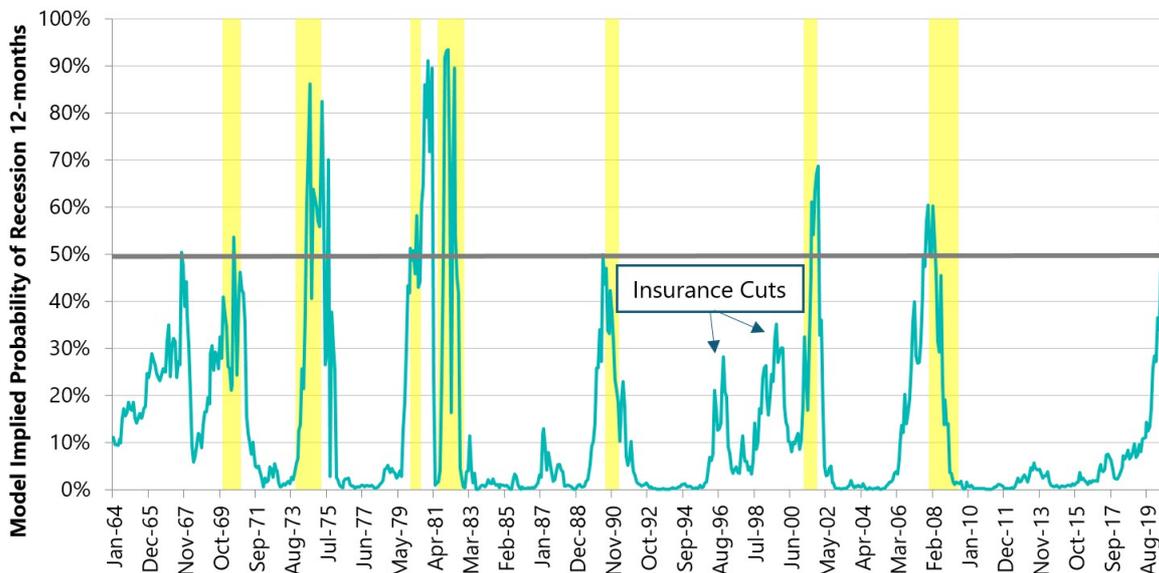


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Figure 1: U.S. Yield Curve and Forecasting Recessions
Yellow Shading Indicates Actual Recessions



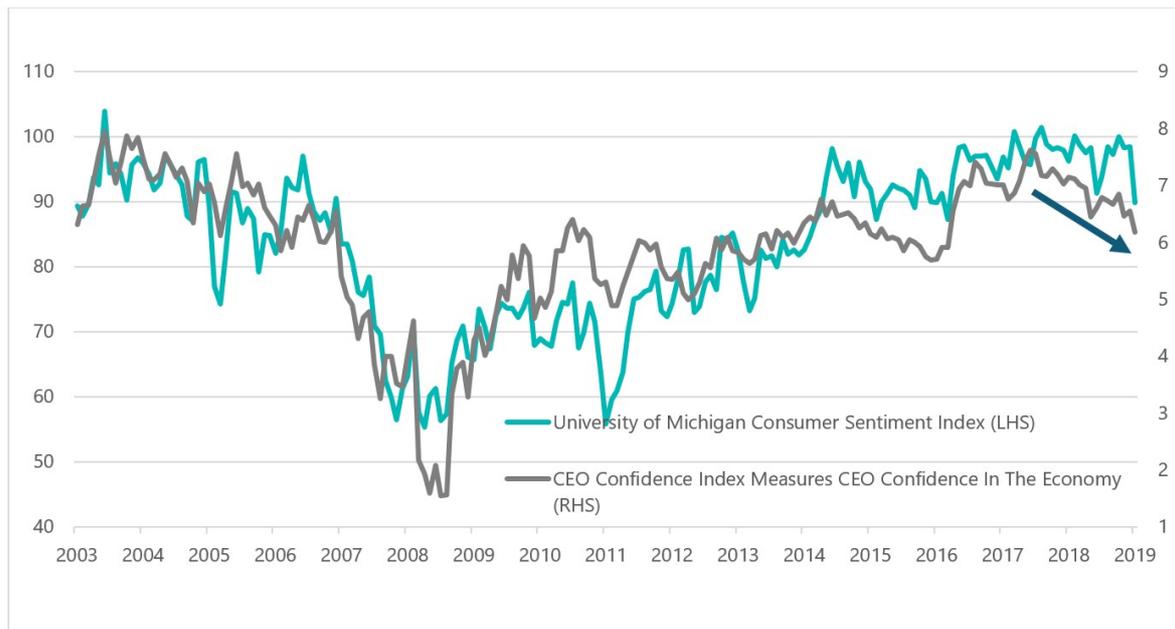
Source: Ninepoint Partners

Obviously, all this negative news flow had a strong impact on markets; global government bond yields declined precipitously (the U.S. 30-year government bond yield made a new all-time low of 1.9%) and risk assets declined violently. Our U.S. recession model (Figure 1 above) now indicates a 57% chance of recession in the summer of 2020.

Since then, principals from China and the U.S. have signalled that they would hold new talks "sometime in October", which has seemed to ease market participant's nerves. Equity markets and bond yields have

since rebounded a bit, with the S&P 500 close to its all-time high. But, by our count, this will be the 13th time that they have held such talks, and thus far the direction of travel for U.S. tariffs has been consistently upward. As we discussed in previous commentaries, market reactions to the trade war developments will continue to be volatile, but we are not holding our breath for a meaningful resolution. The damage from the trade war has already been done; business confidence has been declining since the start of 2018 (Figure 2) and consumers are finally taking notice, as evidenced by the largest drop in the University of Michigan Consumer Sentiment Index since the taper tantrum of 2012.

Figure 2: The Trade War is Eroding U.S. Confidence



Source: Bloomberg

Credit

At the risk of sounding like a broken record, credit remains expensive. Through all the trade headlines, spreads widened somewhat in August (particularly High Yield), but have since recovered most of the lost ground. September is usually a very busy month for new issues, so we expect to be active recycling maturities and inflows into new issues with decent concessions. For now, we are maintaining our conservative positioning with higher quality, lower duration credit.

Diversified Bond Fund (DBF)

August was a solid month for the DBF, returning 1.89%, driven mostly by the strong rally in government bonds. We now have a 30% weight in government bonds, up from only 2% a year ago. We expect this weighting to continue to drift modestly higher in the coming months. Apart from the recent increase in government bonds, the portfolio has remained quite stable.

Diversified Bond Fund Portfolio Characteristics

	Limits	Dec 2017	Mar 2018	Jun 2018	Sept 2018	Dec 2018	Mar 2019	Aug 2019	Outlook
Government Bonds	100%	-2%	0%	-4%	2%	1%	7%	30%	↑
Investment Grade	80%	37%	56%	66%	73%	76%	72%	52%	↓
High Yield	40%	32%	24%	17%	16%	13%	14%	9%	↔
Emerging Market Governments	10%	0%	0%	0%	0%	0%	0%	0%	↔
Preferred Equities	10%	6%	6%	6%	6%	2.5%	0.7%	0%	↔
Common Equities & ETFs	10%	0%	0%	0%	1.5%	1.5%	4.3%	-1.4%	↔
Derivatives	+/- 2.5%	-0.1%	+0.5%	-0.1%	-0.05%	0.0%	0.0%	0.0%	N/A
Cash and Equivalents		28%	14%	15%	1.5%	6%	2%	10%	↔
Total		100%	100%	100%	100%	100%	100%	100%	
Duration	1 to 8 years	2.4	2.1	2.3	1.0	2.4	3.4	5.9	↑
Geographic (% North America)	>75%	89%	90%	89%	93%	91%	87%	86%	↔
Unhedged FX Exposure	20%	0%	0%	0%	0%	0%	0%	5%	↑

Source: Ninepoint Partners

Credit Income Opportunities Fund (Credit Opps)

The Credit Opps returned 32bps in August. Weakness in credit was more than offset by strength in our newly acquired U.S. 10-year treasuries. Otherwise, the portfolio's composition has been relatively stable. Leverage remains low at 0.78x and is mostly composed of short dated investment grade bonds. Given our views on the economic cycle, we expect overall credit exposure to remain modest until we see very attractive opportunities. Still, with the fund returning 5.59% year-to-date and the portfolio yielding 5.29%, we expect 2019 to be a good year for investors.

Credit Income Opportunities Portfolio Characteristics

	Limits	Oct 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	June 2019	Aug 2019	Outlook
Government Bonds	100%	0%	0%	0%	0%	6%	0%	20%	↑
Investment Grade	100%	58%	55%	59%	53%	58%	53%	64%	↔
High Yield	40%	29%	24%	23%	23%	19%	16%	11%	↔
Private Loans	10%	3%	3%	3%	2%	2%	3%	2%	↔
Preferred Equities	10%	4%	4%	4%	2%	0.5%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	0%	0%	0%	0%	-7%	↔
Derivatives	+/- 2.5%	0%	0%	0%	0.1%	0%	-0.4%	0%	N/A
Cash and Equivalents		6%	14%	11%	20%	15%	28%	10%	↔
Total		100%	100%	100%	100%	100%	100%	100%	
Duration	0 to 5 years	2.5	2.1	2.3	1.4	2.9	2.2	3.0	↑
Leverage	0-4x	0.7x	0.7x	0.8x	0.7x	1.0x	1.0x	0.78x	↔
Unhedged FX Exposure	>25%	0%	0%	0%	0%	0%	2.7%	5.6%	↑

Source: Ninepoint Partners

Conclusion

September will be an important month for interest rates, with several central bank meetings on the docket (ECB on the 12th and the Federal Reserve on the 18th). Both are expected to ease, but the devil will be in the details of the releases, new macroeconomic forecasts and press conferences. Particularly at the Fed, we will be watching for signs of a further dovish shift towards an easing cycle (as opposed to "insurance cuts").

Until next month,

The Bond Team: Mark, Etienne and Chris

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS¹
AS OF MARCH 31, 2020 (SERIES F NPP118)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-1.9%	0.3%	0.3%	-0.5%	2.5%	2.8%	3.0%	4.3%

NINEPOINT DIVERSIFIED BOND CLASS - COMPOUNDED RETURNS¹
AS OF MARCH 31, 2020 (SERIES F NPP221)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-2.0%	0.2%	0.2%	-0.6%	2.3%	2.6%	2.9%	4.4%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS¹
AS OF MARCH 31, 2020 (SERIES A NPP506)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	-6.8%	-5.9%	-5.9%	-5.4%	-3.2%	0.5%	2.2%	3.7%

¹ All Ninepoint Diversified Bond Fund returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at August 30, 2019. ¹ All Ninepoint Credit Income Opportunities Fund returns and fund details are a) based on Class A units (closed to subscriptions); b) net of fees; c) annualized if period is greater than one year; d) as at August 30, 2019.

The Ninepoint Diversified Bond Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: Capital depletion risk (Series T, Series FT, Series PT, Series PFT, Series QT, and Series QFT shares only); Capital gains risk; Class risk; Concentration risk; Credit risk; Currency risk; Cybersecurity risk; Derivatives risk; Exchange traded funds risk; Foreign investment risk; Inflation risk; Interest rate risk; Liquidity risk; Regulatory risk; Securities lending, repurchase and reverse repurchase transactions risk; Series risk; Short selling risk; Specific issuer risk; Tax risk; Tracking risk.

The Ninepoint Credit Income Opportunities Fund is generally exposed to the following risks. See the offering memorandum of the Fund for a description of these risks: General Economic and Market Conditions; Assessment of the Market; Not a Public Mutual Fund; Limited Operating History for the Fund; Class Risk; Charges to the Fund; Changes in Investment Objective, Strategies and Restrictions; Unitholders not Entitled to Participate in Management; Dependence of the Manager on Key Personnel; Reliance on the Manager; Resale Restrictions; Illiquidity; Possible Effect of Redemptions; Liability of Unitholders; Potential Indemnification Obligations; Lack of Independent Experts Representing Unitholders; No Involvement of Unaffiliated Selling Agent; Valuation of the Fund's Investments; Concentration; Foreign Investment Risk; Illiquidity of Underlying Investments; Tax; Litigation; Fixed Income Securities; Equity Securities; Idle Cash; Currency Risk; Suspension of Trading.

Ninepoint Credit Income Opportunities Fund is offered on a private placement basis pursuant to an offering memorandum and are only available to investors who meet certain eligibility or minimum purchase amount

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