



# Ninepoint Focused Global Dividend Class

## February 2020 Commentary

Year-to-date to February 29, the Ninepoint Focused Global Dividend Class generated a total return of -3.84% compared to the S&P Global 1200 Index, which generated a total return of -5.79%. For the month, the Fund generated a total return of -5.81% while the Index generated a total return of -6.82%.

### Investment Team

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The world has irrevocably changed since our last commentary. Through January and early-February, the bond and equity markets had taken a relatively benign view of the Covid-19 outbreak. The prevailing view at the time characterized the event as a temporary supply-shock localized mainly in China that would lead to short-term inventory drawdowns and manufacturing bottlenecks. But once the outbreak was contained under this scenario, a quick inventory restocking cycle would have provided an economic boost creating a “v-shaped” recovery. However, by late-February, with new cases accelerating in South Korea, Italy and even the United States, market participants have become more seriously concerned with the impact of a demand-shock on global economic growth. Over the course of approximately six trading days, the equity markets experienced the fastest correction (a fall of greater than 10% peak to trough) since the Great Depression and, at the depths of the selloff, had erased almost two years' worth of gains.

The real risk to economic growth over the next few quarters, particularly in the US, is an abrupt change in consumer confidence and behaviour, which essentially accounts for approximately 70% of GDP. Fear and panic are already leading to scenes of irrational hoarding (including staples, cleaning products and sanitizers) while anything travel related has understandably been shunned. In an effort to shore up confidence, the US Fed announced a 50-bps interest rate cut on March 3rd, the first emergency easing since 2008 and the largest single-day change in monetary policy in a decade. Perhaps that would have been enough under the status quo, but the next shoe to drop hit the markets only a few days later with the failure of OPEC+ to agree to cut oil production, triggering a 20% drop in crude oil prices. Although consumers may soon see lower prices at the pump, thousands of jobs may be at risk and credit concerns have once again hit the oil patch.

Signs of stress and price dislocation have quickly spread across most asset classes. Bond yields have tanked (with the US 10-year bond yield falling below 0.50%), the 2-year to 10-year yield curve has flattened (to just slightly above 10 bps), investment-grade bond spreads have blown out (to levels not seen since 2016), the VIX has ripped above 60 (a measure of volatility not seen since the global financial crisis) and the S&P 500 (as a proxy for the broad equity markets) has fallen almost 20% peak to trough, as of writing. Using market performance during past recessions since 1980 as a guide, an 18% to 20% decline seems to be pricing in a 50% to 70% chance of recession.

Looking at the drawdown from a valuation perspective and assuming roughly flat earnings in 2020 (a weak first half of the year followed by a rebound in the second half as the impact from the outbreak fades), the S&P 500 has essentially returned to the long-term average forward earnings multiple of

16x, after years of multiple expansion. Interestingly, this valuation level roughly coincides with the 200-week moving average, which provided solid support during the significant corrections in 2018, 2016 and 2011. Although timing the duration of the selloff is impossible, history suggests that we are approaching price levels where markets should begin the bottoming process.

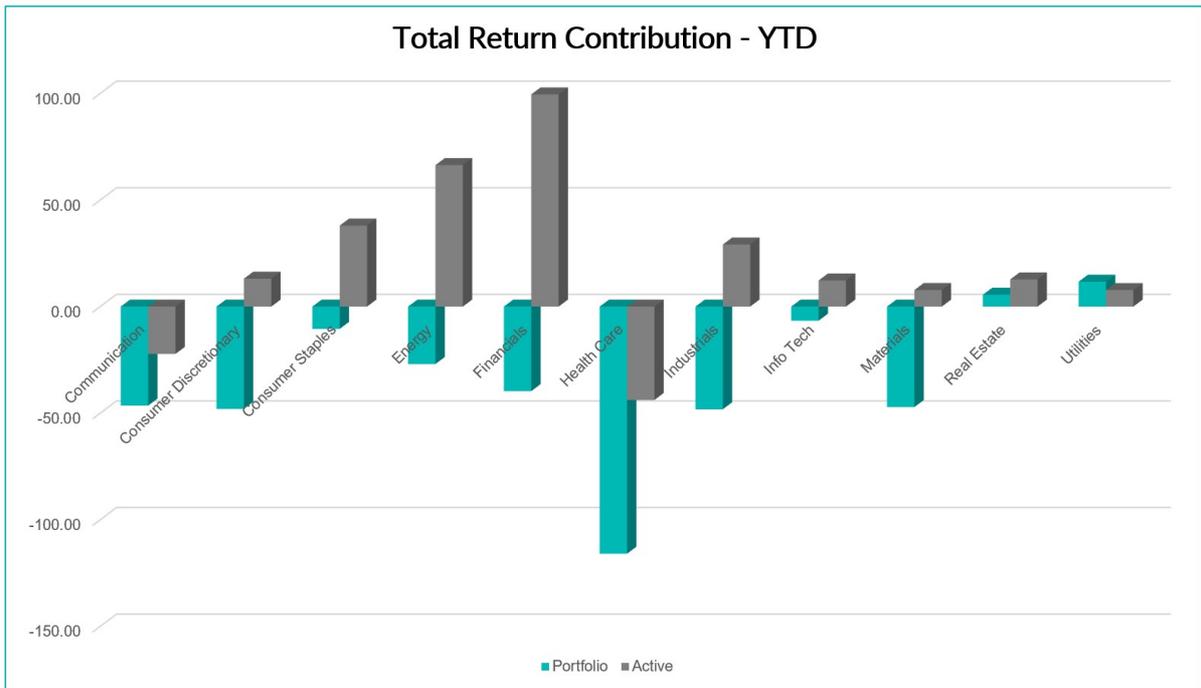
After raising our cash positions to approximately 20% across our three mandates by the end of February, we are now watching for various signals and potential developments in anticipation of carefully deploying some capital in stages. We need to see the US Fed cut rates again (50 bps could come anytime but certainly by the March 18 FOMC meeting). We need to see stability in the credit markets, with the 10-year US Treasury bond yield rebounding and the US 2-year to 10-year yield curve steepening. We need to see a coordinated fiscal response from the US government, including relief from Covid-19 related medical costs and support for domestic businesses (perhaps temporary tax breaks and financial support for paid sick leave and debt repayments). We need to see a deceleration in the number of new Covid-19 cases globally or at least a credible response from the US government designed to protect the public from infection (enough test kits and all-out support for frontline medical professionals would certainly provide a confidence boost). It may seem like a long list today, but the world has tended to show an amazing willingness to pull together during times of crisis.

On a positive note, leading up to the Covid-19 outbreak the US economy seemed to be in very good shape. Unemployment hit a record low of 3.5%, consumer balance sheets were relatively clean, the US banking system was sound, interest rates were relatively low, and the manufacturing sector was clearly recovering from a mid-cycle correction. In keeping with our discipline, we will continue to focus on high quality companies, with clean balance sheets and the ability to grow their dividends over time. Our real asset strategies, including infrastructure and real estate, will continue to generate solid risk adjusted returns given their blend of hard-asset protection and ability to generate consistent cash flow streams and pay steady distributions over the course of the business cycle.

Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Class by sector included Utilities (+12 bps) and Real Estate (+6 bps) while top detractors by sector included Health Care (-116 bps), Industrials (-48 bps) and Consumer

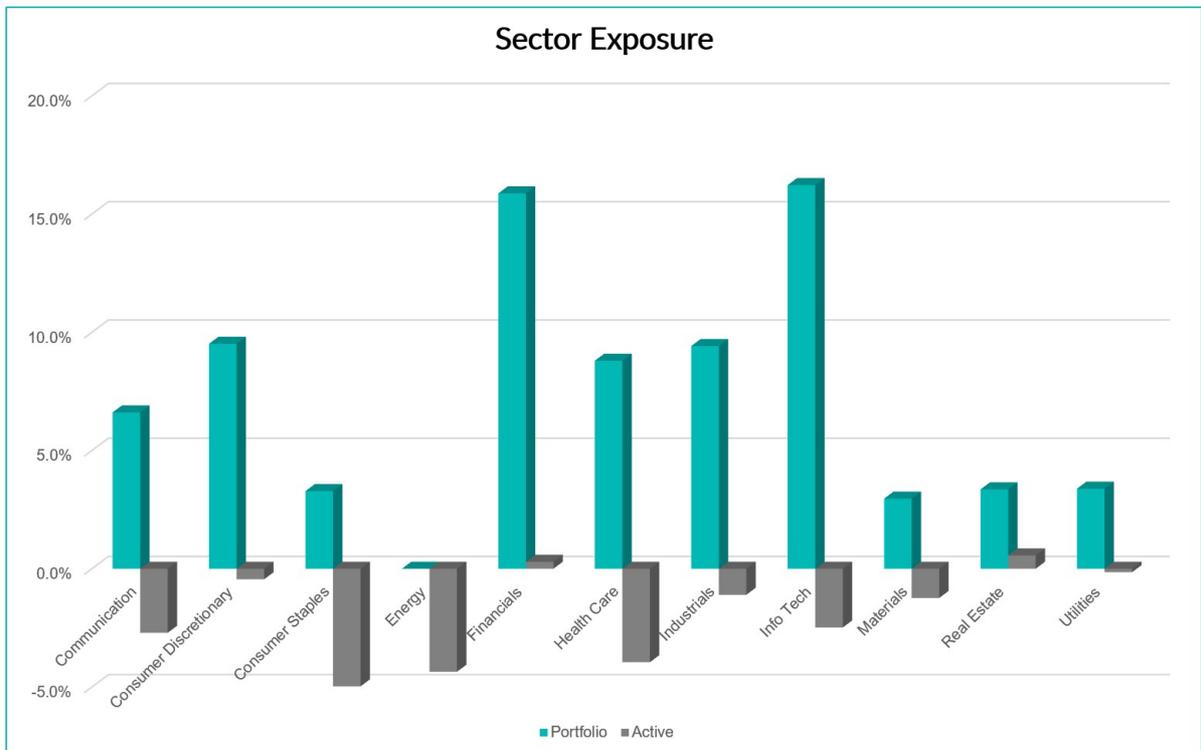
Discretionary (-48 bps) on an absolute basis.

On a relative basis, positive return contributions from the Financials, Energy and Consumer Staples sectors more than offset negative contributions from the Health Care and Communication sectors.



Source: Ninepoint Partners

We are currently slightly overweight the Real Estate and Financials sectors, while underweight the Consumer Staples, Energy and Health Care sectors. We are also holding a much larger than normal cash position (approximately 20%) given the uncertainty in the market. We have also reduced the impact of sector allocation decisions on the portfolio while we await clarity on the coronavirus outbreak, the US presidential elections and the path of future economic growth.



Source: Ninepoint Partners

At the stock specific level, top contributors to the year-to-date performance included Microsoft (+45

bps), Brookfield Asset Management (+28 bps) and Waste Management (+27 bps). Top detractors year-to-date included Citigroup (-48 bps), FMC Corporation (-47 bps) and UnitedHealth Group (-43 bps).

In February, our top performing investments included Fiserv (+8 bps), Waste Management (+5 bps) and Brookfield Asset Management (+1 bps) while Citigroup (-49 bps), UnitedHealth Group (-38 bps) and FMC Corporation (-36 bps) underperformed.

The Ninepoint Focused Global Dividend Class was concentrated in 25 positions as at February 29, 2020 with the top 10 holdings accounting for approximately 34.4% of the fund. Over the prior fiscal year, 21 out of our 25 holdings have announced a dividend increase, with an average hike of 14.2%. We will continue to apply a disciplined investment process, balancing various quality and valuation metrics, in an effort to generate solid risk-adjusted returns.

Jeffrey Sayer, CFA

## **Ninepoint Partners**

<sup>1</sup> All returns and fund details are a) based on Series F shares; b) net of fees; c) annualized if period is greater than one year; d) as at February 29, 2020; e) 2015 annual returns are from 11/25/15 to 12/31/15. The index is S&P GLOBAL 1200 TR (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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