Ninepoint Enhanced Equity Strategy

June 2019 Commentary

Investment Team

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The end of June marked not just the half way point in the current calendar year but also made the current U.S. economic expansion the longest on record. This milestone has been reached after a decade long recovery from the GFC (Global Financial Crisis) of 2008/2009 and has driven unemployment to record lows and the stock market to record highs. Despite all the good news, interest rates have plummeted this year due to concerns over global growth - principally related to Trump's Trade War. Now there seems to be one question on everyone's mind: are we entering a period marking the end of this expansion or can the current expansion overcome old age and continue for a few more years?

How did we get here? The initial tariffs and fears over future ones have begun to understandably impact both trade - particularly in Asia but also Europe – as well as business investment in the U.S. This has caused economic data and forward forecasts to soften globally through the first half of the year which in turn has pushed yields lower across the curve. The trade conflict overhang and lower yields have pushed the Federal Reserve into a corner and their bias has switched from raising rates to neutral to now broadly hinting they are moving to an easing bias. Fed fund futures markets are pricing in a 25bp cut in their July meeting with at least one more, and probably two, before year end.

Stocks have reacted by rotating to "sure thing" growth – those companies seen as being secular growers, largely in tech, and a group that could be called GAAP (Growth At Any Price). The momentum following strategies have pushed this leadership group to levels of relative value never seen before. The group now trades at a 25% premium to the premium it normally trades at. Value stocks, which have been abandoned over the past three years, now trade at a bigger discount to this leadership group than they did in 1999.

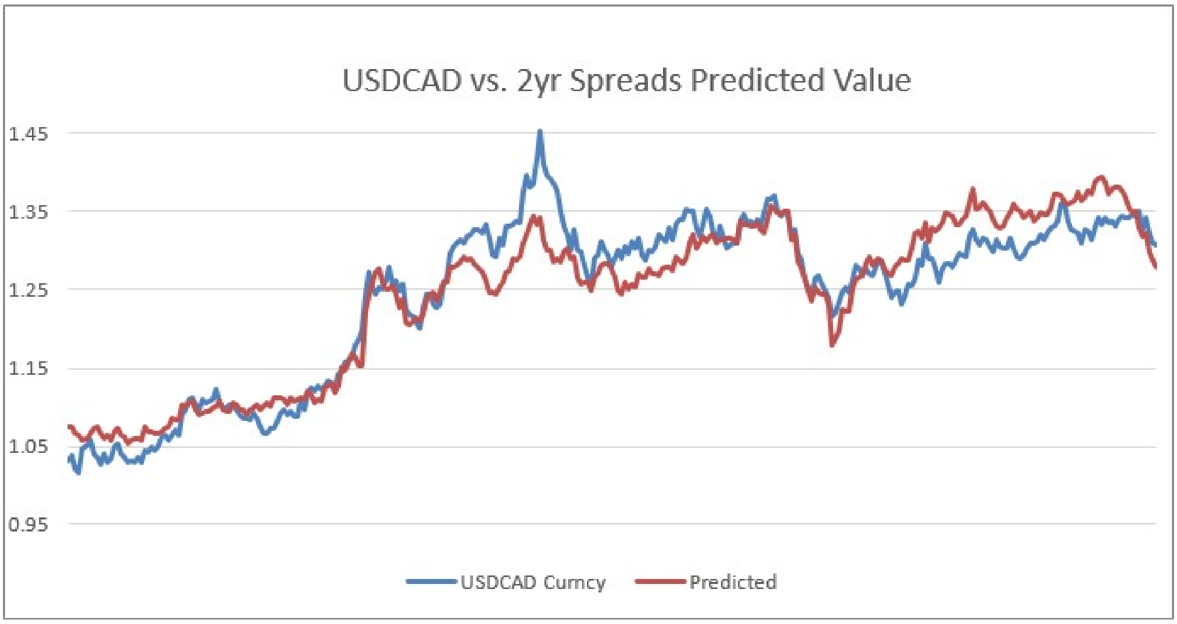
Our view? The Fed will cut 25bps twice this year as "insurance" against a slowing economy and any potential escalation in the trade war. Trump will keep his trade rhetoric in high gear, periodically threatening and potentially enacting new tariffs over the next year. Blaming foreigners through trade and immigration were the two key planks of Trump's 2016 election victory and we expect him to ratchet up the volume heading into the 2020 election year. We do not expect a recession, either here in North America or in China. The Chinese have taken close to 90 separate easing actions over the past year and we expect more to come. With rates lower and no recession, the market can push higher on better earnings but not much more on valuation. That said, the chances for a correction scare similar to Q4 of last year are also elevated and could be triggered by more US/China trade conflict, the US/Iran standoff or even the long forgotten "hard exit" option for Brexit.

We continue to own names with high free cash flow yields, excellent capital return programs (dividends, buybacks or both) and low valuations. Our largest positions at quarter end were Parex

Resources (PXT), Brookfield Infrastructure Partners (BIP-U), Bank of America (BAC), Citigroup (C), Intercontinental Exchange (ICE) and Brookfield Property Partners (BPY-U).

Our hedging book is in place with puts starting just below 2900 on the S&P 500 down through 2800. We also continue to maintain our hedge on the Canadian/U.S. dollar exchange rate. The Canadian dollar rallied 3% in June as markets repriced their expectations for rate cuts by the U.S. Federal Reserve (Fed). Chart 1 highlights the strong relationship between short term rate differentials in the U.S. and Canada and the value of the Canadian Dollar. As U.S. 2-year rates have moved lower relative to Canadian 2-year rates, reflecting the anticipated Fed rate cuts, the Canadian dollar has strengthened. Rates markets are now pricing in almost 3 rate cuts by the U.S. Federal Reserve over the 6 to 8 month timeframe and effectively no rate cuts by the Bank of Canada (BOC). This would appear to us to be a slightly optimistic scenario. We think either the Fed will only cut rates 2 times or that the BOC may end up leaning a bit more dovish in future statements. We therefore expect Canadian dollar gains to moderate going forward. We continue to maintain our hedged position but would consider adjusting it on further strength in Canadian dollar.

Chart 1: Canadian Dollar vs. US Dollar (USDCAD) and rates predicted value (2yr US Rate – 2yr CAD rate)



Ninepoint Partners, Bloomberg LP

Until next month,

The Enhanced Team.

NINEPOINT ENHANCED BALANCED FUND - COMPOUNDED RETURNS[1]
AS OF APRIL 30, 2020 (SERIES F NPP245)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	3.9%	-1.8%	-2.6%	0.2%	-2.2%	-0.9%	0.2%	3.0%

NINEPOINT ENHANCED EQUITY CLASS - COMPOUNDED RETURNS[1]
AS OF APRIL 30, 2020 (SERIES F NPP435)

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	6.5%	-6.1%	-6.1%	-0.2%	-6.7%	-2.7%	-1.3%	2.9%
Index	10.5%	-7.4%	-9.1%	-3.1%	-1.7%	5.6%	7.5%	11.8%

NINEPOINT ENHANCED US EQUITY CLASS - COMPOUNDED RETURNS[1]
AS OF APRIL 30, 2020 (SERIES F $USD NPP391)

	1M	YTD	3M	6M	1YR	3YR	INCEPTION
Fund	7.9%	-5.7%	-5.6%	-1.7%	-1.3%	2.3%	1.0%
Index	12.8%	-9.3%	-9.3%	-3.2%	0.9%	9.0%	9.3%

[1] 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 June 28, 2019; e) inception date for Ninepoint Enhanced Equity Class is 04/16/12. The index for the Ninepoint Enhanced Equity Class; Ninepoint Enhanced Long Short; and Ninepoint Enhanced Long Short RSP is 50% TSX & 50% S&P 500 (CAD) Blended Index and is computed by Ninepoint Partners LP based on publicly available index information. The index for the Ninepoint Enhanced US Equity Class is S&P 500 TR USD and is computed by Ninepoint Partners LP based on publicly available index information.

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