



# Ninepoint Fixed Income Strategy

## May 2020 Commentary

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

### Macro

With the spread of Covid having now stabilized in Western Europe and North America, the peak of the lockdown is now firmly behind us. Figure 1 below shows the Goldman Sachs Effective Lockdown Index, a composite measure they have developed using big data methodology that tracks the intensity of the lockdown across various geographies. As seen from the chart, lockdown intensity in those regions had peaked around mid-April and has since slowly moderated. Interestingly, China's Covid spread has long since subsided, but its lockdown index reading is still about the same level as here. We closely monitor this data, as the pace of further easing in restrictions will play an important role in the speed of the economic recovery. Still, as discussed last month, until we have a vaccine or treatment for Covid-19, it seems improbable that the lockdown index moderates all the way back to Pre-Covid levels any time soon, making the V-shaped recovery expected by investors somewhat elusive.

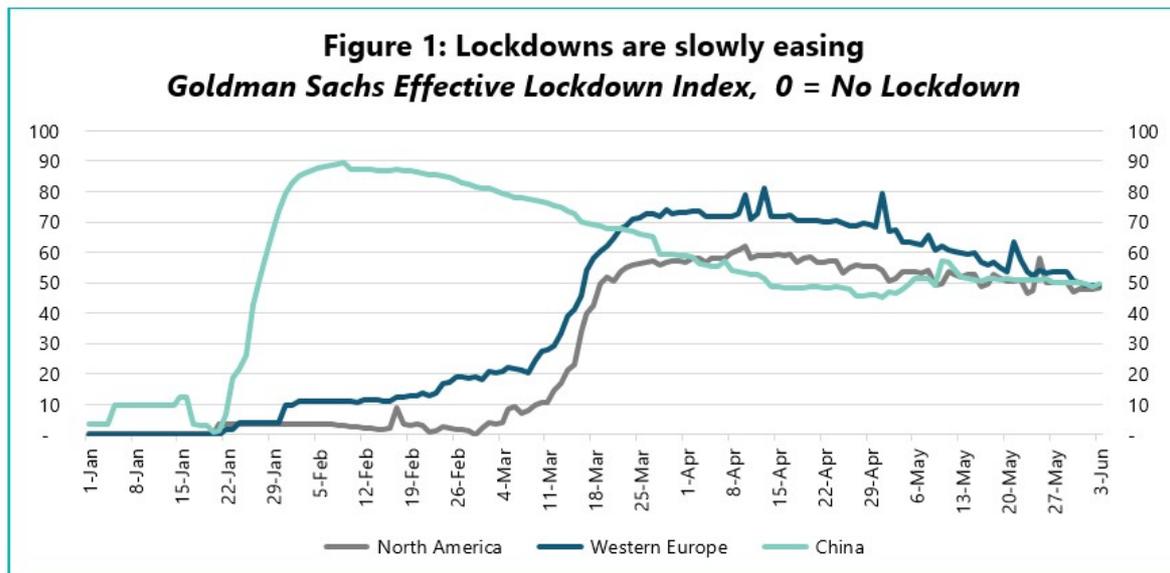
### Investment Team



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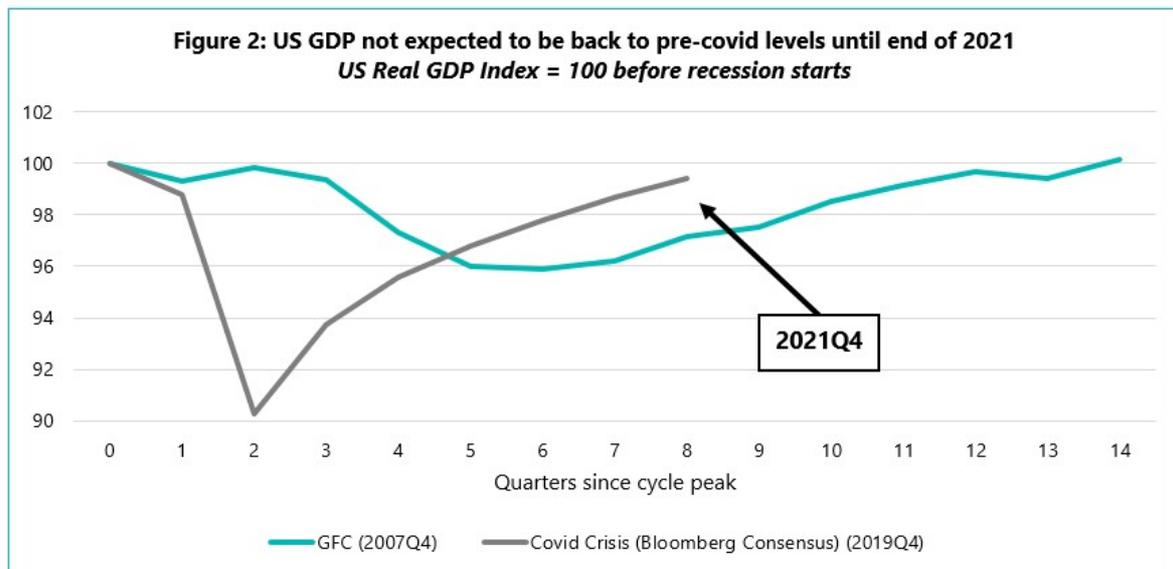


Source: Bloomberg

In trying to reconcile recent market developments with economic expectations, we map current consensus expectations for GDP growth for the next two years and compare it with the most recent recession, the Global Financial Crisis (GFC). Figure 2 below shows the evolution of US Real GDP, indexed to 100 at the peak of the economic cycle (2007Q4 for the GFC, 2019Q4 for the current

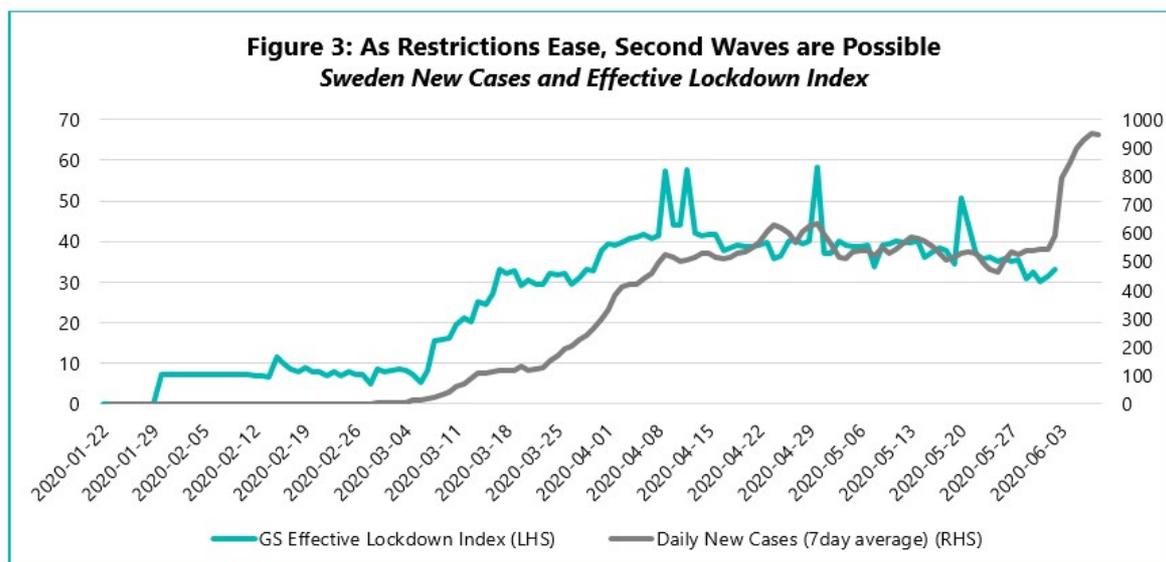
recession). For perspective, the GFC was the deepest recession facing the US economy since the Great Depression. From peak to trough, the US economy declined by 4% and it took two years post the bottom for the economy to get back to where it started.

By contrast, the current recession is forecasted to be very deep, but also short lived. At the trough (which is about now), the economy is forecast to be down 10% from the peak, rebounding swiftly to “only down 4%” by year -end 2020, and back to the starting point by year end 2021. Assuming no second waves of virus infections, business returning back to normal and a widely available vaccine by the first quarter of 2021, this scenario seems unrealistic.



Source: Bloomberg

Discussing a Covid-related acquisition, Ken Frazier, Merck’s CEO, called the 12-18 month timeframe for a Covid-19 vaccine “aggressive”. Further adding that “Our experience suggests those are very aggressive compared to other timelines for getting a safe and effective vaccine”. That’s a comment from an executive who has just bought two Covid vaccine programs. Under normal circumstances, we are told vaccines take 3-4 years to develop. Still, assuming all goes well on the vaccine front, the main risk we are monitoring is a second wave of infections that forces the economy to slow down (or even reverse) its reopening. For example, very recently, just as they were easing social distancing measures, Sweden saw a rapid acceleration in new cases (Figure 3 below).



Source: Bloomberg

With the pressure building on politicians to ease lockdown measures, it is increasingly probable that further waves of Covid infections, similar to what is happening in Sweden, will hit some countries or regions. Therefore, the rapid pace of catch up in economic growth that is currently expected and priced by market participants (Figure 2) seems aggressive, considering all the things that need to go right.

## Credit

Credit, like equities, has continued to be in demand, performing very well. Similar to April, the new issue market continues to be extremely active. As of the end of May, USD investment grade issuance was up 100% vs last year, to over \$1tn (to give readers some perspective, the USD market in a normal year issues about \$1-1.2tn, for the full year). In Canada, issuance is also up significantly, 60% vs last year. As the second quarter comes to a close, we expect issuance to slow as corporations become flush with cash. Slower new issue supply, coupled with strong industry inflows and large maturities in June, should bode well for credit spreads into the summer months.

As discussed last month, we find that credit spreads have moved too far too fast, but we also recognize that structural factors will play a positive role for the next few months. Therefore, we continue to reinvest our inflows and maturities carefully in good quality, intermediate term investment grade bonds, which is where we currently see the best value. In the same spirit, we are avoiding High Yield, as we believe that defaults and downgrades will pressure spreads wider.

## Diversified Bond Fund (DBF)

The DBF fund performed well in May, returning 0.76%. Relative to government bonds credit continues to perform extremely well. As discussed above, we have been engaged in the new issue market, recycling some of our maturing bonds and new inflows into intermediate term IG bonds. Accordingly, our duration has drifted up to about 5.3 years (of which 1.3 years is attributable to our existing government bonds).

Liquidity remains high, with approximately 18% of the fund maturing within the next 12 months. This will allow us to continue to evaluate market conditions and take advantage of hiccups, should they arise.

Following month end, we selectively took profits on some higher beta positions.

### Diversified Bond Fund Portfolio Characteristics

	Limits	Dec 2017	Mar 2018	Jun 2018	Sept 2018	Dec 2018	Mar 2019	Jun 2019	Sept 2019	Dec 2019	Mar 2020	May 2020	Outlook
Government Bonds	100%	-2%	0%	-4%	2%	1%	7%	22%	28%	13%	9%	8%	↔
Investment Grade	80%	37%	56%	66%	73%	76%	72%	58%	61%	58%	78%	80%	↔
High Yield	40%	32%	24%	17%	16%	13%	14%	9%	7%	6%	13%	15%	↔
Emerging Market Governments	10%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Preferred Equities	10%	6%	6%	6%	6%	2.5%	0.7%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	0%	1.5%	1.5%	4.3%	2.4%	-1.3%	0%	0%	-3%	↔
Derivatives	+/- 2.5%	-0.1%	+0.5%	-0.1%	-0.05%	0.0%	0.0%	-0.2%	0.0%	0.2%	0%	0%	N/A
Cash and Equivalents		28%	14%	15%	1.5%	6%	2%	9%	6%	22%	0%	0%	↔
<b>Total</b>		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	1 to 8 years	2.4	2.1	2.3	1.0	2.4	3.4	5.4	6.5	4.3	3.8	5.4	↔
Geographic (% North America)	>75%	89%	90%	89%	93%	91%	87%	85%	86%	85%	92%	91%	↔
Unhedged FX Exposure	20%	0%	0%	0%	0%	0%	0%	6%	5%	3%	3%	5%	↔

Source: Ninepoint Partners

### Credit Income Opportunities Fund (Credit Opps)

As the rally in credit persists, the Credit Opps continues to perform well, returning 1.72% in May. We have been recycling maturing positions into new issues, taking advantage of the positive tone in credit and attractive new issue concessions, particularly in the Canadian market. Leverage has drifted modestly higher, but remains within our risk appetite. Offsetting some of the increased credit exposure is a short position in a HY ETF (HYG), which we increased to 16% from 10%. The strength of high yield relative to investment grade continues to defy history (historical spread beta of 4.5:1, realizing 8.5:1 now), and as such remains an attractive hedge to our IG credit portfolio.

**Following month end, we had started to take some profits in higher beta positions.**

## Credit Income Opportunities Portfolio Characteristics

	Limits	Oct 2018	Dec 2018	Mar 2019	June 2019	Sept 2019	Dec 2019	Mar 2020	May 2020	Outlook
Government Bonds	100%	0%	0%	6%	0%	18%	0%	0%	0%	↔
Investment Grade	100%	58%	55%	58%	53%	68%	64%	72%	55%	↑
High Yield	40%	29%	24%	19%	16%	10%	6%	22%	27%	↑
Private Loans	10%	3%	3%	2%	3%	2%	2%	4%	4%	↔
Preferred Equities	10%	4%	4%	0.5%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	0%	0%	-7%	-7%	-10%	-16%	↓
Derivatives	+/- 2.5%	0%	0%	0%	-0.4%	0%	0%	0%	0.1%	N/A
Cash and Equivalents		6%	14%	15%	28%	8%	32%	12%	26%	↓
<b>Total</b>		100%	100%	100%	100%	100%	100%	100%	100%	
Duration	<b>0 to 5 years</b>	2.5	2.1	2.9	2.2	2.9	1.7	2.6	2.15	↔
Leverage	<b>0-4x</b>	0.7x	0.7x	1.0x	1.0x	0.77x	1.04x	0.87x	1.24x	↑
Unhedged FX Exposure	<b>&gt;25%</b>	0%	0%	0%	2.7%	5.1%	-3.2%	0%	1%	↔

Source: Ninepoint Partners

## Conclusion

The funds entered the year with a conservative bias, allowing us to act from a position of strength. Given our current economic view, we continue to be vigilant and nimble, understanding full well that there are downside risks to this Covid crisis that are currently ignored by market participants. Preservation of capital remains our primary objective.

Until next month,

### Mark and Etienne

The Bond Team  
Ninepoint Partners

**Interview with the Financial Times, can be found by clicking the below link:**

<https://www.ft.com/content/7b72a568-9eed-460f-b100-7bf74e3f4cbf>

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS<sup>1</sup> AS OF JUNE 30, 2023 (SERIES F NPP118) | INCEPTION DATE: AUGUST 5, 2010

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	0.1%	1.8%	0.0%	1.8%	0.6%	-2.1%	0.4%	2.4%	3.0%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS<sup>1</sup> AS OF JUNE 30, 2023 (SERIES F NPP507) | INCEPTION DATE: JULY 1, 2015

	1M	YTD	3M	6M	3YR	5YR	INCEPTION
Fund	0.5%	3.3%	1.4%	3.3%	4.3%	3.8%	4.2%

<sup>1</sup> 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 May 31, 2020 <sup>1</sup> All Ninepoint Credit Income Opportunities Fund returns and fund details are a) based on Class F units; b) net of fees; c) annualized if period is greater than one year; d) as at May 31, 2020.

**The Risks associated with investing in a Fund depend on the securities and assets in which the Funds invests, based upon the Fund's particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund's prospectus or offering memorandum before investing.**

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