Ninepoint Fixed Income Strategy

November 2022 Commentary

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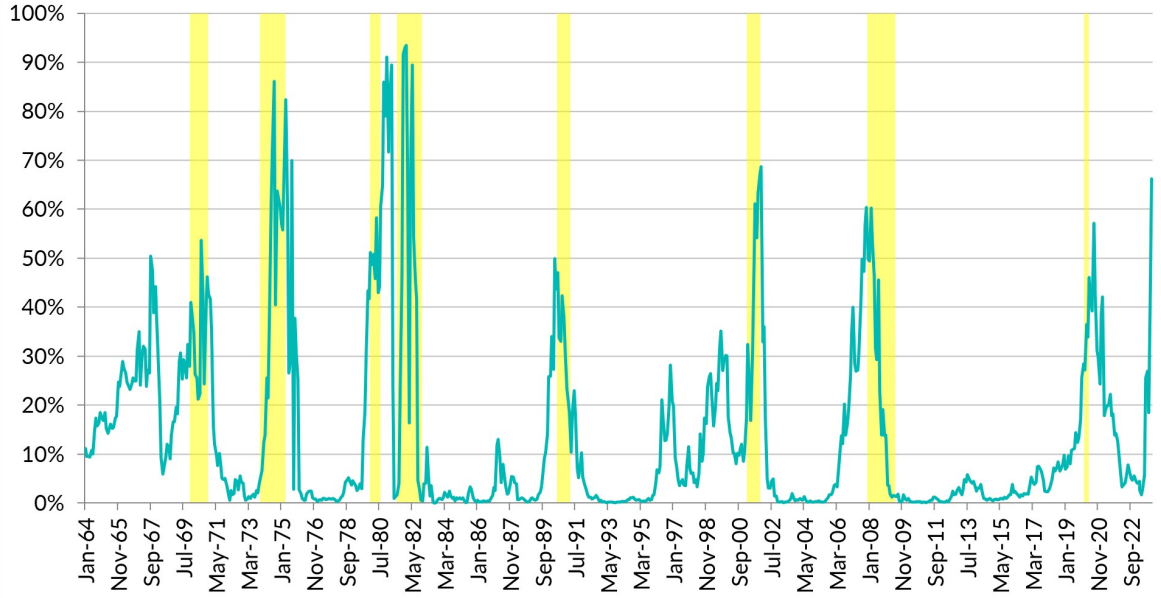
Monthly commentary discusses recent developments across the ***Diversified Bond****,* ***Alternative Credit Opportunities*** *and* ***Credit Income Opportunities Funds****.*

Since the better-than-expected October US inflation numbers, markets have rallied across the board and now seem to discount much better odds of a soft landing (i.e. Central banks successfully bringing inflation back under control without triggering a recession). While a soft landing would be very constructive for risk assets generally (see our October Monthly Commentary for our 2023 outlook and scenario analysis), we remain of the opinion that 400bps of rate hikes in less than a year, the fastest hike cycle since the 1980s, is bound to have repercussions for the real economy.

Indeed, our yield curve recession forecasting model is now flashing red, with odds of a U.S. recession over 60% for the next 12 months (Figure 1 below, yellow shading indicates recession). Historically, inversions of this magnitude (10-year minus 3-months was -71bps at the end of November) are very rare and have always preceded recessions (1973, 1979, 1981 and 2000). At the risk of sounding like a broken record, monetary policy acts with long and variable lags, and given the pace of this hike cycle, we have yet to feel its impacts.

Figure 1: U.S. Recession Odds Are Very Elevated
Odds of Recession 12-months ahead, based on 10y-3m yield spread



Source: Authors calculations, Bloomberg. As of November 30, 2022

Thankfully, with goods inflation turning into deflation and housing clearly decelerating, overall inflation has most probably peaked. At this juncture, the last piece of the inflation puzzle remains the labour market, where wages are still too high due to a shortage of workers. Therefore, wages will likely remain a source of upward

pressure for inflation for the foreseeable future. That is why the Fed and the BoC will be reluctant to cut interest rates any time soon. Yes, we are very close to the end of the hiking cycle, but unless the unemployment rate starts increasing rapidly, that doesn't mean that rate cuts will follow shortly thereafter.

As mentioned above, November was undoubtedly a good month for risk assets. The S&P 500 rallied almost 6% for the month while the US Investment Grade Corporate Bond Index tightened by 24 bps. Canada lagged the move in US credit spreads but still tightened a very material 15 bps. For context, the rally in Canadian credit spreads in November was the largest of the year, with the telecommunication and pipeline sectors outperforming. The strong tone in risk coupled with lower government bond yields led to a busy month in primary markets as all-in coupons were far more attractive for issuers. November saw $14.5bln of new corporate supply in Canada with the bulk of issuance being of the corporate variety (i.e. non-financial). This marks the second busiest month in corporate supply for the year. Broadly speaking, all new issues built strong books which performed well once trading began in secondary markets. As has been our playbook for many years, we took advantage of the busy new issue market to opportunistically add to credits we like. So far in December, primary markets have slowed down and we would expect this to remain the case heading into the calendar year-end.

We continue to thread carefully, high grading portfolios where we can and avoiding companies that we think could struggle in a more challenging macroeconomic environment in 2023. Our allocation to high yield should continue to decline and overall portfolios duration will increase.

Ninepoint Diversified Bond Fund

We took advantage of the strong rally in the telecommunication sector to take some profits within the sector. We participated in the SNC-Lavalin new issue after gaining additional confidence in the de-leveraging story while viewing the short tenor and high coupon as an attractive fit to the portfolio. As of month-end the funds yield-to-maturity was 7.5% (up slightly from 7.3% last month) while duration was largely unchanged at 3.4 years.

Ninepoint 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	June 2020	Sept 2020	Dec 2020	Mar 2021	June 2021	Sept 2021	Dec 2021	March 2022	June 2022	Sept 2022	Nov 2022	Outlook
Government Bonds	100%	-2%	0%	-4%	2%	1%	7%	22%	28%	13%	9%	9%	14%	8%	-8%	2%	0%	-7.0%	1%	2%	1%	1%	↑
Investment Grade	80%	37%	56%	66%	73%	76%	72%	58%	61%	58%	78%	80%	71%	74%	84%	76%	73%	70%	73%	65%	70%	72%	↑
High Yield	40%	32%	24%	17%	16%	13%	14%	9%	7%	6%	13%	11%	12%	11%	12%	14%	18%	18%	23%	29%	26%	26%	↓
Emerging Market Governments	10%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%	1%	1%	0%	0%	0%	0%	↔
Preferred Equities	10%	6%	6%	6%	6%	2.5%	0.7%	0%	0%	0%	0%	0%	2%	4%	6%	5%	3%	1%	2%	2%	2%	1%	↓
Common Equities & ETFs	10%	0%	0%	0%	1.5%	1.5%	4.3%	2.4%	-1.3%	0%	0%	-6%	-5%	-2%	0%	0%	2%	0%	0%	0%	0%	0%	↔
Derivatives	+/- 2.5%	-0.1%	+0.5%	-0.1%	-0.05%	0.0%	0.0%	-0.2%	0.0%	0.2%	0%	0%	0.1%	0%	0%	0%	0%	0%	1%	3%	0%	0%	N/A
Cash and Equivalents		28%	14%	15%	1.5%	6%	2%	9%	6%	22%	0%	6%	6%	5%	5%	1%	3%	14%	0%	0%	1%	0%	↑
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	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	5.9	6.2	5.3	3.6	4.5	4.2	2.9	2.2	2.4	4.0*	3.4	↑
Spread Duration		-	-	-	3.4	2.9	3.0	2.3	3.1	3.0	2.2	4.1	3.8	3.9	4.5	5.4	5.1	5.1	4.6	4.3	3.7	3.2	↔
Unhedged FX Exposure	20%	0%	0%	0%	0%	0%	0%	6%	5%	3%	3%	5%	6%	6%	0.5%	4%	0%	0%	0%	0%	0%	0%	↔

Source: Ninepoint Partners

Alternative Credit Opportunities Fund (NACO)

We took advantage of the strong rally in the telecommunication sector to take some profits within the sector. We participated in the SNC-Lavalin new issue after gaining additional confidence in the de-leveraging story while viewing the short tenor and high coupon as an attractive fit to the portfolio. We also participated in the

Coast Capital new issue as the deal came with a generous spread for the credit rating in addition to issuing on an attractive part of the Government of Canada yield curve. As of month-end the funds yield-to-maturity was 10.4% while duration was 2.4 years, both of which largely unchanged month over month. While we brought down leverage in October, it remained flat at 1.1x in November which served the portfolio well given the rally in credit spreads.

Ninepoint Alternative Credit Opportunities Fund
Portfolio Characteristics

	Limits	May 2021	June 2021	July 2021	Aug. 2021	Sept. 2021	Oct. 2021	Nov. 2021	Dec. 2021	Jan. 2022	Feb. 2022	March 2022	April 2022	May 2022	June 2022	July 2022	Aug. 2022	Sept. 2022	Oct. 2022	Nov. 2022	Outlook
Government Bonds	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↑
Investment Grade	100%	58%	66%	53%	49%	44%	48%	52%	44%	46%	48%	51%	50%	51%	51%	49%	50%	53%	54%	54%	↑
High Yield	40%	36%	32%	29%	24%	22%	28%	29%	29%	33%	29%	27%	29%	28%	28%	29%	29%	24%	22%	19%	↓
ABS	20%	0%	4%	1%	8%	6%	7%	7%	7%	9%	10%	11%	13%	13%	15%	16%	15%	18%	19%	23%	↔
Loans	10%	0%	0%	0%	3%	3%	3%	6%	5%	5%	5%	5%	4%	4%	4%	4%	4%	3%	3%	4%	↓
Preferred Equities	10%	8%	8%	4%	4%	3%	3%	2%	2%	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	↓
Common Equities & ETFs	10%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Derivatives	+/- 2.5%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%	1%	1%	1%	0%	0%	0%	N/A
Cash and Equivalents		-2%	-18%	11%	10%	19%	3%	6%	13%	7%	8%	5%	0%	2%	0%	0%	0%	3%	3%	3%	↑
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	0 to 5 years	3.0	2.7	3.1	3.0	2.9	3.2	3.0	2.7	1.7	1.9	2.1	2.2	2.0	2.0	2.6*	2.7*	2.9*	2.6*	2.4*	↑
Leverage	0-3x	1.4x	1.37x	1.13x	1.06x	1.09x	1.10x	1.10x	1.00x	1.20x	1.20x	1.10x	1.18x	1.17x	1.10x	1.20x	1.20x	1.30x	1.10x	1.10x	↓
Unhedged FX Exposure	<20%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔

Source: Ninepoint Partners

Credit Income Opportunities Fund (Credit Ops)

We took advantage of the strong rally in the telecommunication sector to take some profits within the sector. We participated in the SNC-Lavalin new issue after gaining additional confidence in the de-leveraging story while viewing the short tenor and high coupon as attractive. We also participated in the Penske Truck Leasing new issue which we viewed as a solid addition to the portfolio, particularly via its diversification benefits. As of month-end the funds yield-to-maturity was 11.3% while duration was 2.4 years, both of which largely unchanged month of month. While we brought down leverage in October, it remained flat at 1.2x in November which served the portfolio well given the rally in credit spreads.

Ninepoint Credit Income Opportunities Fund
Portfolio Characteristics

	Limits	Oct 2018	Dec 2018	Mar 2019	June 2019	Sept 2019	Dec 2019	Mar 2020	June 2020	Sept 2020	Dec 2020	Mar 2021	June 2021	Sept 2021	Dec 2021	March 2022	June 2022	Sept 2022	Nov 2022	Outlook
Government Bonds	100%	0%	0%	6%	0%	18%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↑
Investment Grade	100%	55%	52%	54%	48%	63%	59%	67%	57%	68%	49%	42%	34%	29%	31%	31%	32%	35%	38%	↑
High Yield	40%	29%	24%	19%	16%	10%	6%	22%	28%	26%	26%	30%	32%	37%	33%	34%	38%	32%	29%	↓
ABS	20%	3%	3%	4%	5%	5%	5%	5%	8%	9%	15%	11%	10%	14%	14%	11%	8%	7%	10%	↔
Loans	10%	3%	3%	2%	3%	2%	2%	4%	7%	6%	6%	3%	4%	4%	8%	9%	7%	7%	7%	↓
Preferred Equities	10%	4%	4%	0.5%	0%	0%	0%	0%	0%	0%	5%	10%	8%	4%	2%	3%	3%	2%	2%	↓
Common Equities & ETFs	10%	0%	0%	0%	0%	-7%	-7%	-10%	-15%	-13%	-8%	0.3%	0%	1%	1%	1%	2%	2%	2%	↔
Derivatives	+/- 2.5%	0%	0%	0%	-0.4%	0%	0%	0%	1%	0%	1%	1%	1%	1%	1%	2%	3%	1%	1%	N/A
Cash and Equivalents		6%	14%	15%	28%	8%	32%	12%	8%	2%	3%	-0.5%	1.2%	6%	5%	2%	1%	8%	6%	↑
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	0 to 5 years	2.5	2.1	2.9	2.2	2.9	1.7	2.6	3.3	5.1	3.8	2.6	2.5	3.4	2.5	1.6	1.4	2.7*	2.4*	↑
Leverage	0-4x	0.7x	0.7x	1.0x	1.0x	0.77x	1.04x	0.87x	1.67x	1.15x	1.04x	1.26x	1.36x	1.43x	1.30x	1.30x	1.40x	1.40x	1.20x	↓
Unhedged FX Exposure	<25%	0%	0%	0%	2.7%	5.1%	-3.2%	0%	0.3%	0%	2%	1%	0%	0%	0.5%	0.2%	-0.2%	0.1%	0.3%	↔

Source: Ninepoint Partners

As this is our last official communication for 2022, we'd like to thank investors and other stakeholders for their support this year. It has been a very volatile and challenging year, and we hope everyone will be able to enjoy some much-needed downtime during the last few weeks of 2022. Wishing everyone happy holidays and a prosperous new year.

Please reach out to discuss further.

Until next month,

Mark, Etienne & Nick
Ninepoint Partners

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1] AS OF NOVEMBER 30, 2022 (SERIES F NPP118) | INCEPTION DATE: AUGUST 5, 2010

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	0.9%	-9.8%	-1.3%	-2.5%	-9.1%	-1.4%	0.2%	2.3%	3.0%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF NOVEMBER 30, 2022 (SERIES F NPP507) | INCEPTION DATE: JULY 1, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.5%	-7.1%	-1.4%	-1.1%	-6.7%	4.2%	3.5%	4.1%

NINEPOINT ALTERNATIVE CREDIT OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF NOVEMBER 30, 2022 (SERIES F NPP931) | INCEPTION DATE: APRIL 30, 2021

	1M	YTD	3M	6M	1YR	INCEPTION
Fund	1.2%	-9.4%	-2.1%	-2.4%	-9.1%	-5.4%

[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 November 30, 2022 [1] 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 November 30, 2022. [1] All Ninepoint Alternative Credit 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 November 30, 2022.

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