



# Ninepoint Fixed Income Strategy

September 2020 Commentary

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

## Macro

After months of relentless rallying, we finally saw some volatility in equities and credit. Prices have fluctuated wildly, mostly on US fiscal stimulus headlines. We remain of the opinion that additional fiscal stimulus ahead of the Presidential election is somewhat unlikely, as the gap between what Democrats and Republicans want is still too wide. What happens in the lame duck session remains to be seen, but depending on the result of the election, we might have to wait for January 2021 for a new fiscal package to be approved. Already, some of the economic data from August such as retail sales are showing signs of weakness (late July is when the last enhanced unemployment benefits were disbursed). With the Covid pandemic entering its second wave and social distancing measures remaining in effect, the lapse of fiscal support might expose the true damage of the recession.

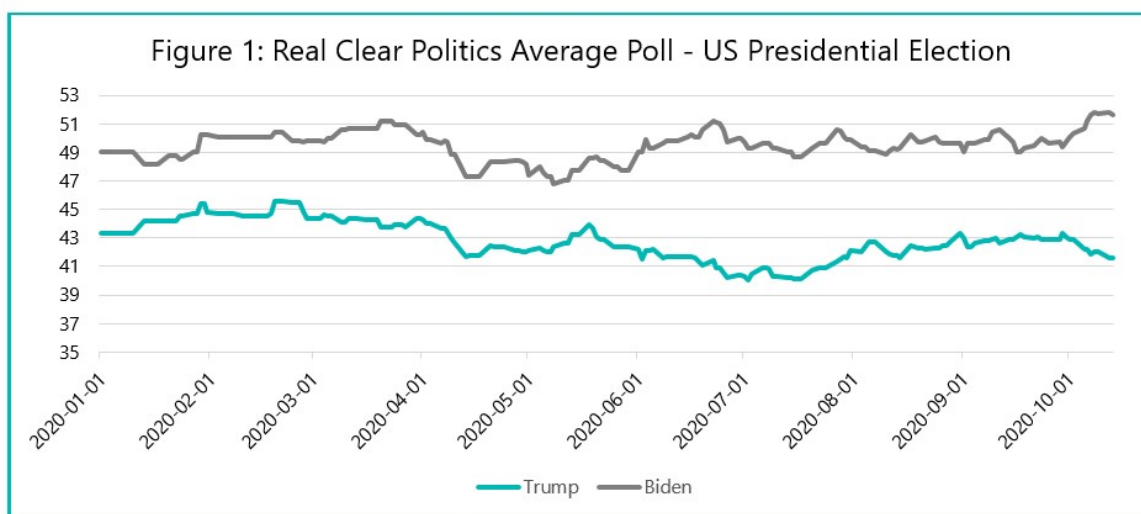
## Investment Team



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Manager



Source: Bloomberg

Another important development is the increased odds of a Democratic sweep in November (i.e. Democrats winning the White House and control of both houses). As of the time of writing, Trump is lagging in the polls (Figure 1) in most swing states and several Republican senate races are also very close. From the market's perspective, the best-case scenario would be one where Biden wins the White House, but the senate remains Republican. This would bring back some sort of normalcy to the Oval Office, but prevent Democrats from enacting their full agenda, particularly on the fiscal side (i.e. more spending, coupled with higher taxes on corporations and the wealthy). One way or another, if Joe Biden wins the presidency, the deregulation that took place during the Trump presidency will be mostly reversed. In the event of a sweep, higher taxes and re-regulation is a clear negative for US companies,

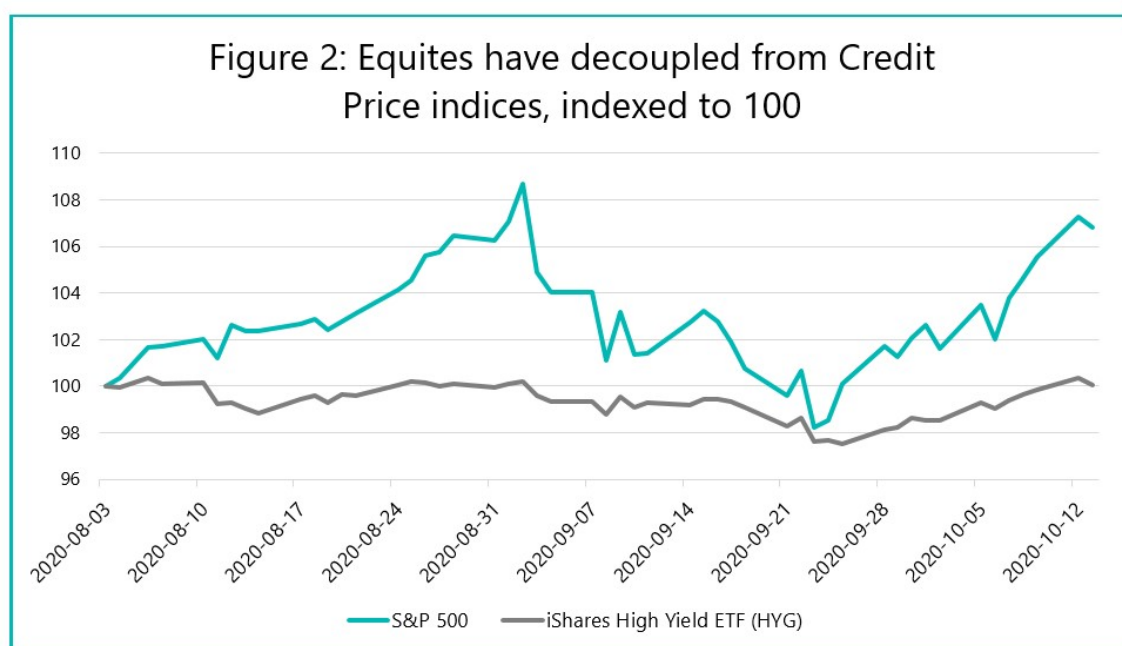
but for now market participants do not seem overly concerned with the policy implications of the election, focusing instead on the immediate concern of whether Trump will vacate the White House peacefully.

The pandemic and civil unrest in the US has made 2020 a truly unusual year, and with about three weeks to election day, a lot can still change. With Trump lagging in the polls, we expect his behaviour to become increasingly erratic (e.g. the First Debate and his comments about white supremacists). Our biggest concern heading into November is how disruptive Trump and his supporters could be, even if the election result are a clear defeat.

Across the pond, Brexit is making the headlines again. By the end of 2020, unless there is a trade agreement, the UK and the rest of the EU will revert to WTO trading rules. Negotiations have lagged, bogged down by two issues: fishing rights and state aid to companies. We know from experience that Boris Johnson likes playing games of chicken with the EU, but that he has typically been the one that flinches. With the pandemic already hitting the UK and EU economies, it seems like the logical thing to do would be to find a compromise on those issues and move on. Unfortunately, Johnson seems intent on playing yet another game of chicken into the end of the year.

## Credit

While US equities sold off by about 10% in September, the reaction of credit markets was initially more muted. To be fair, credit didn't witness the same extravagance as stocks in the previous month (Figure 2). Investment grade spreads have widened modestly, but mostly in the second half of the month, as equities bottomed. We continue to see new issues being extremely oversubscribed and secondary markets conditions are characterized by better buying. In other words, investors are flush with cash and so far, the buy the dip mentality is alive and well. Although we did take profits on some of our investment grade positions there has been no change in stance at our end. We continue to add to our liquidity, keeping some powder dry to deploy at more attractive spreads. Until then, we continue to buy short dated corporate bonds, commercial paper and called securities.



Source: Bloomberg

## Diversified Bond Fund (DBF)

September was a more modest month for the DBF, returning 34bps; while credit spreads widened

modestly, our various hedges provided us a positive return. We did not make any material changes to the portfolio in September, but astute readers will notice our government bond and high yield weights going up slightly. This increase doesn't reflect a big change in positioning bias, its more of a cash management strategy. We have been buying short-term called high yield bonds as a cash replacement strategy (often with yields around 3%) along with 2-year government bonds for increased liquidity.

### 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	Outlook
Government Bonds	100%	-2%	0%	-4%	2%	1%	7%	22%	28%	13%	9%	9%	14%	↔
Investment Grade	80%	37%	56%	66%	73%	76%	72%	58%	61%	58%	78%	80%	71%	↔
High Yield	40%	32%	24%	17%	16%	13%	14%	9%	7%	6%	13%	11%	12%	↓
Emerging Market Governments	10%	0%	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%	2%	↔
Common Equities & ETFs	10%	0%	0%	0%	1.5%	1.5%	4.3%	2.4%	-1.3%	0%	0%	-6%	-5%	↔
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%	N/A
Cash and Equivalents		28%	14%	15%	1.5%	6%	2%	9%	6%	22%	0%	6%	6%	↑
Total		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	↔
Spread Duration		-	-	-	3.4	2.9	3.0	2.3	3.1	3.0	2.2	4.1	3.8	↓
Unhedged FX Exposure	20%	0%	0%	0%	0%	0%	0%	6%	5%	3%	3%	5%	6%	↔

Source: Ninepoint Partners

### Credit Income Opportunities Fund (Credit Opps)

With credit spreads widening in September, we are happy with the Credit Opps staying flat (+1 bps to be exact). Since August, we have been steadily reducing risk in the portfolio, harvesting profits, selling down credit and taking a more cautious stance. As of month-end, leverage is now 1.15x (from 1.33x in August and 1.67x in June).

## Credit Income Opportunities Portfolio Characteristics

	Limits	Oct 2018	Dec 2018	Mar 2019	June 2019	Sept 2019	Dec 2019	Mar 2020	June 2020	Sept 2020	Outlook
Government Bonds	100%	0%	0%	6%	0%	18%	0%	0%	0%	0%	↔
Investment Grade	100%	58%	55%	58%	53%	68%	64%	72%	65%	77%	↑
High Yield	40%	29%	24%	19%	16%	10%	6%	22%	28%	26%	↔
Private Loans	10%	3%	3%	2%	3%	2%	2%	4%	7%	6%	↔
Preferred Equities	10%	4%	4%	0.5%	0%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	0%	0%	-7%	-7%	-10%	-15%	-13%	↔
Derivatives	+/- 2.5%	0%	0%	0%	-0.4%	0%	0%	0%	1%	0%	N/A
Cash and Equivalents		6%	14%	15%	28%	8%	32%	12%	8%	2%	↔
Total		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	↓
Leverage	0-4x	0.7x	0.7x	1.0x	1.0x	0.77x	1.04x	0.87x	1.67x	1.15x	↓
Unhedged FX Exposure	>25%	0%	0%	0%	2.7%	5.1%	-3.2%	0%	0.3%	0%	↔

Source: Ninepoint Partners

### Conclusion

Our defensive stance going into September paid off, and we remain well positioned to weather more volatility, should it arise. Unfortunately, credit has not got cheap enough to entice us to start putting more money to work. Until then, we will continue to look for idiosyncratic opportunities and wait for the volatility.

Until next month,

**Mark & Etienne**

Ninepoint Partners

**NINEPOINT DIVERSIFIED BOND CLASS - COMPOUNDED RETURNS<sup>1</sup>**  
AS OF SEPTEMBER 30, 2020 (SERIES F NPP221)

	<b>1M</b>	<b>YTD</b>	<b>3M</b>	<b>6M</b>	<b>1YR</b>	<b>3YR</b>	<b>5YR</b>	<b>INCEPTION</b>
Fund	0.3%	5.6%	1.5%	5.4%	4.7%	3.7%	4.0%	4.8%

**NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS<sup>1</sup>**  
AS OF SEPTEMBER 30, 2020 (SERIES F NPP118)

	<b>1M</b>	<b>YTD</b>	<b>3M</b>	<b>6M</b>	<b>1YR</b>	<b>3YR</b>	<b>5YR</b>	<b>10YR</b>	<b>INCEPTION</b>
Fund	0.3%	5.8%	1.5%	5.5%	4.9%	3.8%	4.1%	4.5%	4.6%

**NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS<sup>1</sup>**  
AS OF SEPTEMBER 30, 2020 (SERIES F NPP507)

	<b>1M</b>	<b>YTD</b>	<b>3M</b>	<b>6M</b>	<b>1YR</b>	<b>3YR</b>	<b>5YR</b>	<b>INCEPTION</b>
Fund	0.0%	8.5%	5.8%	15.2%	9.1%	5.0%	5.5%	5.0%

<sup>1</sup> All Ninepoint Diversified Bond Fund/Class 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 September 30, 2020 <sup>1</sup> All Ninepoint Credit Income Opportunities Fund returns and fund details are a) based on Class F units (closed to subscriptions); b) net of fees; c) annualized if period is greater than one year; d) as at September 30, 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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