Ninepoint Focused Global Dividend Fund

November 2023 Commentary

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Summary

- Ninepoint Focused Global Dividend Fund had a YTD return of 12.37% up to November 30, compared to the S&P Global 1200 Index's total return of 17.85%.
- In November, the Fund generated a total return of 5.59%, while the Index had a return of 6.60%.
- November's market rally followed the Fed's decision to maintain rates, likely signaling the end of the tightening phase culminating with a spike in US 10-year bond yields.
- Concerns still exist regarding the Fed's ability to engineer a soft landing post a substantial 525 bps worth of tightening, despite current economic resilience.
- Market expectations suggest approximately five rate cuts in 2024, prompting debates about whether this would be consistent with a soft-landing scenario as anticipated by the equity markets.
- The Fund is currently overweight the Energy, Consumer Discretionary and Industrials sectors, while underweight the Materials, Communication and Utilities sectors.
- The fund was concentrated in 27positions, with the top 10 holdings accounting for approximately 41.0% of the fund. Over the prior fiscal year, 20 out of our 27 holdings have announced a dividend increase, with an average hike of 6.5% (median hike of 7.8%)

Monthly Update

Year-to-date to November 30, the Ninepoint Focused Global Dividend Fund generated a total return of 12.37% compared to the S&P Global 1200 Index, which generated a total return of 17.85%. For the month, the Fund generated a total return of 5.59% while the Index generated a total return of 6.60%.

Ninepoint Focused Global Dividend Fund - Compounded Returns[1] As of November 30, 2023 (Series F NPP964) | Inception Date: November 25, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	Inception
Fund	5.6%	12.4%	2.3%	7.8%	8.0%	6.4%	7.9%	7.3%
S&P Global 1200 TR (CAD)	6.6%	17.9%	1.8%	8.2%	12.9%	9.2%	10.8%	10.2%

After the seasonally weak August to October period, the markets experienced a powerful relief rally in November. The move was likely triggered by the October 31 to November 1 Fed meeting, where members of the FOMC committee voted to hold rates steady in a range of 5.25% to 5.50% and Chairman Powell's post-meeting press conference essentially confirmed that the tightening phase of the interest rate cycle is now done. We believe that the final spike in the US 10-year bond yields to just above 5.0% effectively tightened financial conditions to a sufficient degree to satisfy the FOMC committee. We had previously identified the rate spike as the primary culprit of weakness across various financial asset classes and as the US 10-year bond yield fell, short sellers covered positions and buyers stepped in aggressively.

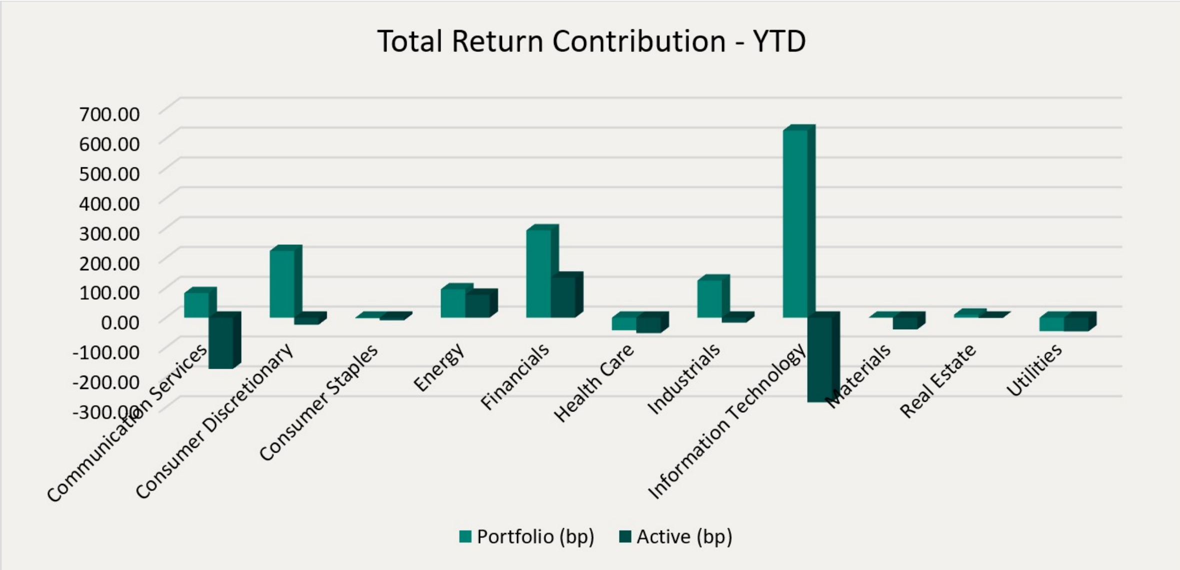
The debate now turns to whether the Fed can engineer a soft-landing or whether the lagged impact of 525 bps of tightening will eventually do more serious damage to the US economy. Thankfully, the economic data is slowing but remains relatively resilient thus far. Released early-December, the November PMI data was consistent with a mild slowdown in goods as the ISM Manufacturing PMI remained in contractionary territory at 46.7% but modest growth in services as the ISM Services PMI registered 52.7%. Excess slack in the labour market also seems to be fading, although November's nonfarm payroll report increased by 199,000 jobs and the unemployment rate ticked down to 3.7%. We still see diminishing upwards pressure on wages in the absence of any fear of widespread job losses, which is consistent with a soft-landing scenario. Incorporating new information in real-time, the forward curve is currently indicating approximately five rate cuts in 2024. We believe that the 125 bps of anticipated easing in 2024 is inconsistent with a dovish/bullish scenario (growth would likely have to weaken dramatically for that amount of Fed easing, which wouldn't be particularly good for the equity markets), but only a couple of rate cuts would still be needed to improve the odds of a soft-landing.

Importantly, if the November rally is to continue into 2024, earnings growth will need to reaccelerate. Entering the Q3 earnings season, expectations were quite low and consensus estimates suggested a slight decline, which would have resulted in four consecutive quarters of negative growth. However, with 98% of the S&P 500 companies having reported actual results, the blended year-over-year earnings growth rate is 4.8%, which certainly helped stocks to rally in November. Based on earnings year-to-date and consensus estimates looking forward, earnings are expected to rebound approximately 11% in 2024, according to FactSet. After a flat year for earnings in 2023, a return to earnings growth in a soft-landing scenario should be well received by the equity markets. As always, we are continually searching for companies that can post solid earnings growth but still trade at acceptable valuations today.

Through the trough of the cycle, the most important drivers of investment performance will likely be valuation, balance sheet strength and the ability to consistently generate cash flow and earnings. In keeping with our mandates, we are concentrating our research efforts on high quality, dividend growth companies and real asset investments given our positive assessment of the risk/reward outlook over the next few years. After many years of outperformance from the high-growth and high valuation Information Technology sector, as capital becomes more expensive, we expect a rotation out of the big winners of 2023 and into equities more aligned with our dividend-focused mandates in 2024.

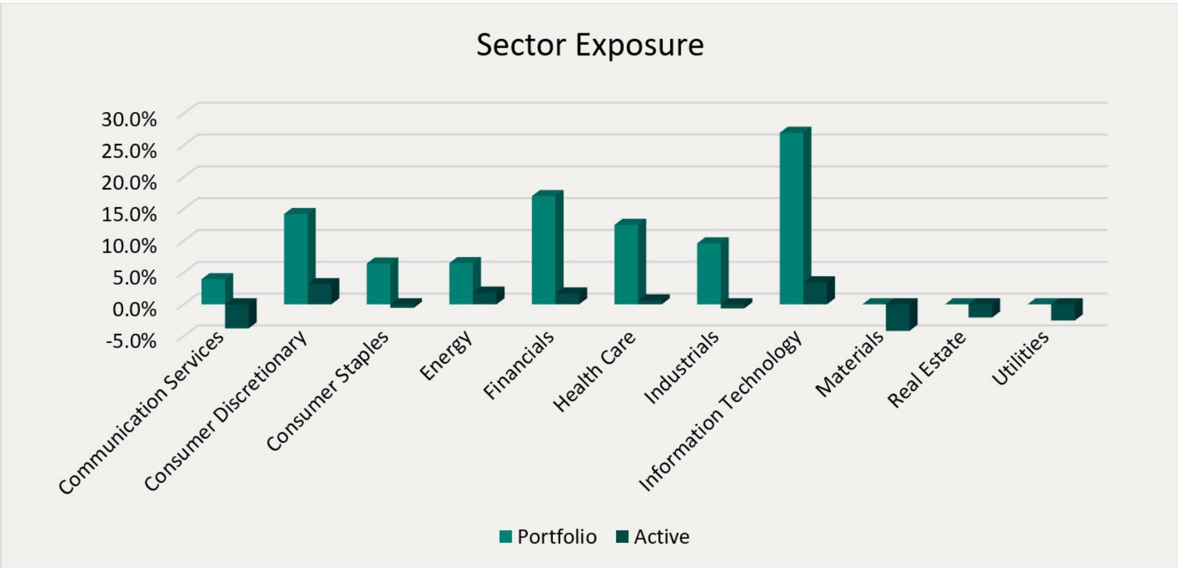
Top contributors to the year-to-date performance of the Ninepoint Focused Global Dividend Fund by sector included Information Technology (+627 bps), Financials (+293 bps) and Consumer Discretionary (+224 bps), while top detractors by sector included Utilities (-45 bps), Health Care (-42 bps) and Consumer Staples (-2 bps) on an absolute basis.

On a relative basis, positive return contributions from the Financials (+134 bps) and Energy (+77 bps) sectors were offset by negative contributions from the Information Technology (-283 bps), Communication (-172 bps) and Health Care (-52 bps) sectors.



Source: Ninepoint Partners

We are currently overweight the Information Technology, Consumer Discretionary and Energy sectors, while underweight the Materials, Communication and Utilities sectors. Although the lagged impact of monetary tightening is now slowing inflation, constraining growth, and creating higher unemployment, we expect a Fed pivot to easier monetary policy at some point in 2024. In the meantime, we remain focused on high quality, dividend payers that have demonstrated the ability to consistently generate revenue and earnings growth through the business cycle.



Source: Ninepoint Partners

The Ninepoint Focused Global Dividend Fund was concentrated in 27 positions as at November 30, 2023 with the top 10 holdings accounting for approximately 44.1% of the fund. Over the prior fiscal year, 20 out of our 27 holdings have announced a dividend increase, with an average hike of 6.5% (median hike of 7.8%). We will continue to apply a disciplined investment process, balancing various quality and valuation metrics, in an effort to generate solid risk-adjusted returns.

Jeffery Sayer, CFA
Ninepoint Partners

[1] 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 November 30, 2023; 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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