



Ninepoint Fixed Income Strategy

October 2023 Commentary

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



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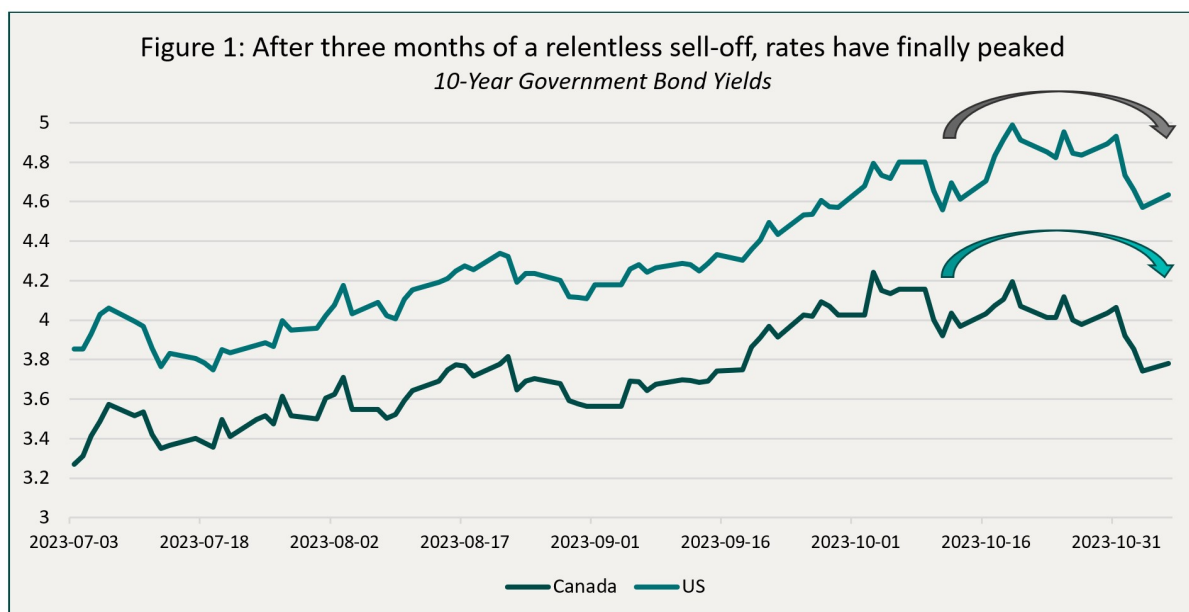
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Summary

- Major Central Banks are now firmly on pause, and the bar to hike further is very high.
- After a relentless sell-off in October, long-term interest rates have finally peaked.
- Global economic activity is decelerating further, and that now includes labour markets.

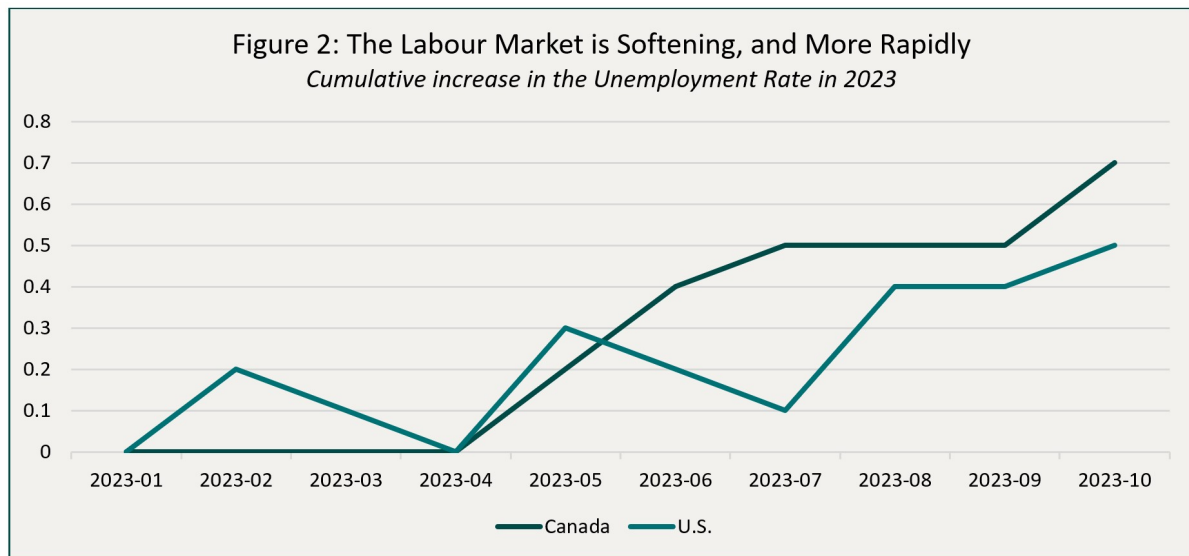
Macro

Without any catalyst to change the recent momentum, long-term interest rates continued to increase in October, reaching as high as 5% for the U.S. 10-Year (Figure 1). As discussed last month, this sell-off was driven by a variety of factors, including; elevated government bond supply, surprisingly good economic growth in the U.S, and a hawkish Federal Reserve in September. The result was a 100bps increase in long-term interest rates over that 3-month period, a rather dramatic repricing that left most investors unwilling to catch the proverbial falling knife. These dynamics left the government bond market in a very oversold condition, in prime position for a reversal. All that was needed was a spark, and we got several in quick succession.



Source: Bloomberg, as of November 6, 2023.

Around month-end, we typically get many high-frequency economic data releases. Overall, the early data for the first month of Q4 has been quite disappointing. European PMIs remain weak and in contraction territory, the Euro Zone's GDP contracted in Q3, Chinese PMIs surprised to the downside, as per Bloomberg U.S. ISM manufacturing plunged several points to 46.7 and even the ISM Services index slowed meaningfully, to 51.8. We also received employment data for the month of October, which disappointed to the downside. Job growth in many countries is starting to slow. In Canada and the U.S., the unemployment rate continues its ascent (Figure 2 below). Since the start of the year, we have had a cumulative increase of 0.7% and 0.5% in the unemployment rates of Canada and the U.S., respectively.



Source: Bloomberg, as of October 31, 2023.

While Q3 GDP in the U.S. was exceptionally strong, fuelled by a debt-driven consumer and government spending binge, overall, the tone continues to be bleak elsewhere. And even in the U.S., monthly indicators like employment and PMIs are surprising to the downside.

Additionally, the November 1st FOMC meeting produced no surprises, with Powell highlighting the need for prudence and patience at this juncture in the cycle, and acknowledging both the lagged impacts of monetary policy and of the recent tightening in financial conditions (i.e. higher long-term bond yields). This further cemented the view that the Fed has done enough, and that going forward, the bar to hike further is quite high.

Finally, bond supply, driven by ever-increasing government deficits, had been a source of angst amongst bond investors. Thankfully, the U.S. Treasury Quarterly Refunding Announcement (where they tell us how much of each tenor they plan on issuing for the following period) surprised everyone with lower-than-expected issuance of 10 and 30-year bonds.

Taken all together, this confluence of catalysts completely turned the table in the bond market, driving yields lower, particularly at the long-end, where the sell-off had been most acute. With this behind us, we have probably seen this cycle's high for long-term rates.

We also believe that the Fed, ECB, and BoC are done with interest rate increases for this cycle. Economic momentum is waning and that should be enough to see a slow but steady normalization in inflation. The bar is very high now to restart rate hikes, and given the recent inflationary experience and their willingness to reassert their credibility as inflation fighters, the bar will also be high to

initiate rate cuts. As the economy deteriorates further, Central Bankers will likely drag their feet longer than they otherwise would to cut rates, increasing the likelihood that this upcoming slowdown will be more like a recession than a soft landing.

In the funds, we will maintain our current defensive stance:

- Lend to better quality companies and for short term periods to maximize yield while minimizing volatility,
- Keep long-term government bonds for ballast,
- And some credit hedges for added ballast.

We do not expect to materially change the composition of the funds for the foreseeable future. The tactical next move, when we enter recession, will be to eventually migrate from our current defensive positioning to opportunistic mode.

Credit

Given the volatility in the rates market, risk assets had a challenging month. With US equities lower on the month, both Canadian and US investment grade spreads widened in October, 5bps and 1bp respectively. Immense rate volatility coupled with a softer tone in risk assets led to an extremely quiet month in terms of bond issuance in Canada. While a few small utility deals did come to market, October 2023 was one of the slowest months in terms of primary supply over the past decade. As per TD Securities, YTD issuance now stands at ~\$83bn, which trails the ~\$99bn this time last year. Given December tends to be seasonally slow, it is hard to imagine 2023 hitting the supply estimates that the syndication desks had forecasted for this year (~\$100bn). That being said, the strong rally in the rates market that began in November may spark the interest of issuers before we approach U.S. Thanksgiving later this month. Lastly, Ford was upgraded to BBB- by S&P, which resulted in the issuer being moved back into the investment grade index and removed from the high yield index. While we expected Ford to eventually receive an upgrade, we are surprised by S&P's timing given the challenging quarter Ford reported just one week prior to the upgrade. All three funds benefitted from the material spread compression as the issuer is owned across the funds.

Ninepoint Diversified Bond Fund (DBF)

As mentioned above, positioning in the fund did not change materially in the month given there has been no change to our macro outlook. The fund remains defensively positioned. Our High Yield weight moved down month-over-month (helped by the Ford upgrade) and we expect this weight to continue to decline into next year given numerous upcoming high yield maturities. The average credit quality is right at BBB+. The yield-to-maturity of the fund moved up 20bps and now sits at 8.4%. Duration ended the month at 4.5 years while our short position in HYG (used for credit hedging purposes) remains at our target of -5%.

Ninepoint Diversified Bond Fund Changes to Portfolio

	Limits	Dec 2017	Jun 2018	Dec 2018	Jun 2019	Dec 2019	June 2020	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	March 2023	April 2023	May 2023	June 2023	July 2023	August 2023	Sept 2023	Oct 2023	Outlook
Government Bonds	100%	-2%	-4%	1%	22%	13%	9%	8%	2%	-7.0%	2%	1%	3%	3%	4%	5%	5%	5%	4%	5%	↔
Investment Grade	80%	37%	66%	76%	58%	58%	80%	74%	76%	70%	65%	75%	67%	68%	74%	72%	76%	75%	76%	81%	↔
High Yield	40%	32%	17%	13%	9%	6%	11%	11%	14%	18%	29%	23%	24%	24%	24%	25%	24%	24%	23%	20%	↓
Emerging Market Governments	10%	0%	0%	0%	0%	0%	0%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Preferred Equities	10%	6%	6%	2.5%	0%	0%	0%	4%	5%	1%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	1.5%	2.4%	0%	-6%	-2%	0%	0%	0%	0%	0%	-2%	-4%	-5%	-5%	-5%	-5%	-5%	↔
Derivatives	+/- 2.5%	-0.1%	-0.1%	0.0%	-0.2%	0.2%	0%	0%	0%	0%	3%	0%	0%	0%	0%	0%	0%	-1%	-2%	-3%	N/A
Cash and Equivalents		28%	15%	6%	9%	22%	6%	5%	1%	14%	0%	0%	6%	7%	1%	3%	2%	2%	3%	2%	↑
Total		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	2.3	2.4	5.4	4.3	5.9	5.3	4.5	2.9	2.4	3.4*	3.8*	3.8*	4.5*	4.3*	4.2*	4.7*	4.8*	4.5*	↔
Spread Duration		-	-	2.9	2.3	3.0	4.1	3.9	5.4	5.1	4.3	3.2	2.5	2.3	2.1	1.8	1.7	1.6	1.6	1.6	↔
Unhedged FX Exposure	20%	0%	0%	0%	6%	3%	5%	6%	4%	0%	0%	0%	1%	1%	1%	1%	1%	1%	0%	-1%	↔

Source: Ninepoint Partners

Ninepoint Alternative Credit Opportunities Fund (NACO)

Positioning in the fund did not change materially in the month given there has been no change to our macro outlook. The fund remains defensively positioned. Our High Yield weight moved down month-over-month (helped by the Ford upgrade) and we expect this weight to continue to decline into next year given numerous upcoming high yield maturities. Average credit quality moved up one notch to BBB+. The yield-to-maturity of the fund ended the month at 10%. Duration and leverage remain at 2.7 years and 0.7x, respectively. Lastly, our short position in HYG (used for credit hedging purposes) remains at our target of -10%.

Ninepoint Alternative Credit Opportunities Fund Changes to Portfolio

	Limits	June 2021	Sept. 2021	Dec. 2021	March 2022	June 2022	Sept. 2022	Dec. 2022	March 2023	April 2023	May 2023	June 2023	July 2023	August 2023	Sept 2023	Oct 2023	Outlook
Government Bonds	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Investment Grade	100%	66%	44%	44%	51%	51%	53%	52%	52%	56%	63%	61%	66%	65%	68%	68%	↑
High Yield	40%	32%	22%	29%	27%	28%	24%	19%	19%	17%	14%	14%	13%	14%	12%	10%	↓
ABS	20%	4%	6%	7%	11%	15%	18%	23%	23%	23%	23%	23%	25%	24%	23%	23%	↓
Loans	10%	0%	3%	5%	5%	4%	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%	↓
Preferred Equities	10%	8%	3%	2%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	0%	0%	0%	0%	0%	0%	-3%	-7%	-10%	-10%	-10%	-10%	-10%	↔
Derivatives	+/- 2.5%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	-1%	-2%	N/A
Cash and Equivalents		-18%	19%	13%	5%	0%	3%	3%	7%	7%	2%	8%	4%	4%	4%	7%	↑
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	0 to 5 years	2.7	2.9	2.7	2.1	2.0	2.9*	2.4*	2.6*	2.6*	3.2*	2.8*	2.8*	3.2*	2.9*	2.7*	↔
Leverage	0-3x	1.37x	1.09x	1.00x	1.10x	1.10x	1.30x	1.10x	0.90x	0.90x	0.80x	0.70x	0.70x	0.70x	0.70x	0.7x	↔
Unhedged FX Exposure	<20%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔

Source: Ninepoint Partners

Ninepoint Credit Income Opportunities Fund (Credit Ops)

Positioning in the fund did not change materially in the month given there has been no change to

our macro outlook. The fund remains defensively positioned. Our High Yield weight moved down month-over-month (helped by the Ford upgrade) and we expect this trend to continue to decline into next year given numerous upcoming high yield maturities. Average credit quality remains at BBB. The yield-to-maturity of the fund ended the month at 10.9% unchanged from the month prior. Duration and leverage remain at 3.1 years and 0.7x respectively. Lastly, our short position in HYG (used for credit hedging purposes) remains at our target of -10%.

Ninepoint Credit Income Opportunities Fund

Changes to Portfolio

	Limits	Dec 2018	June 2019	Dec 2019	June 2020	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	March 2023	April 2023	May 2023	June 2023	July 2023	August 2023	Sept 2023	Oct 2023	Outlook
Government Bonds	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Investment Grade	100%	52%	48%	59%	57%	49%	34%	31%	32%	37%	36%	47%	49%	49%	50%	58%	60%	64%	↑
High Yield	40%	24%	16%	6%	28%	26%	32%	33%	38%	31%	29%	27%	27%	26%	28%	30%	27%	23%	↓
ABS	20%	3%	5%	5%	8%	15%	10%	14%	8%	10%	12%	11%	9%	9%	8%	9%	9%	9%	↔
Loans	10%	3%	3%	2%	7%	6%	4%	8%	7%	9%	6%	9%	7%	8%	8%	8%	8%	8%	↓
Preferred Equities	10%	4%	0%	0%	0%	5%	8%	2%	3%	2%	0%	0%	0%	0%	0%	0%	0%	0%	↔
Common Equities & ETFs	10%	0%	0%	-7%	-15%	-8%	0%	1%	2%	1%	1%	-2%	-7%	-8%	-9%	-9%	-9%	-9%	↔
Derivatives	+/- 2.5%	0%	-0.4%	0%	1%	1%	1%	1%	3%	1%	0%	0%	0%	0%	0%	0%	-2%	-2%	N/A
Cash and Equivalents		14%	28%	32%	8%	3%	1.2%	5%	1%	5%	12%	6%	9%	15%	13%	4%	4%	5%	↔
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	0 to 5 years	2.1	2.2	1.7	3.3	3.8	2.5	2.5	1.4	2.4*	2.6*	2.7*	2.9*	2.6*	2.7*	3.2*	3.3*	3.1*	↔
Leverage	0-4x	0.7x	1.0x	1.04x	1.67x	1.04x	1.36x	1.30x	1.40x	1.20x	0.90x	0.90x	0.80x	0.70x	0.70x	0.80x	0.70x	0.70x	↓
Unhedged FX Exposure	<25%	0%	2.7%	-3.2%	0.3%	2%	0%	0.5%	-0.2%	0.3%	0.2%	0.1%	-0.2%	0%	0%	0%	0%	0%	↔

Source: Ninepoint Partners

Until next month,

Mark, Etienne & Nick

Ninepoint Partners

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS¹ AS OF APRIL 30, 2024 (SERIES F NPP118) | INCEPTION DATE: AUGUST 5, 2010

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	-1.6%	-0.5%	-0.3%	6.0%	3.0%	-1.3%	0.6%	2.1%	3.1%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS¹ AS OF APRIL 30, 2024 (SERIES F NPP507) | INCEPTION DATE: JULY 1, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	0.0%	2.7%	1.9%	7.3%	7.6%	2.1%	5.0%	4.6%

NINEPOINT ALTERNATIVE CREDIT OPPORTUNITIES FUND - COMPOUNDED RETURNS¹ AS OF APRIL 30, 2024 (SERIES F NPP931) | INCEPTION DATE: APRIL 30, 2021

	1M	YTD	3M	6M	1YR	INCEPTION
Fund	-0.2%	2.2%	1.7%	7.4%	7.5%	0.5%

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 October 31, 2023. 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 October 31, 2023. 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 October 31, 2023.

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