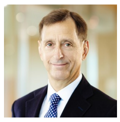
Ninepoint Fixed Income Strategy

January 2024 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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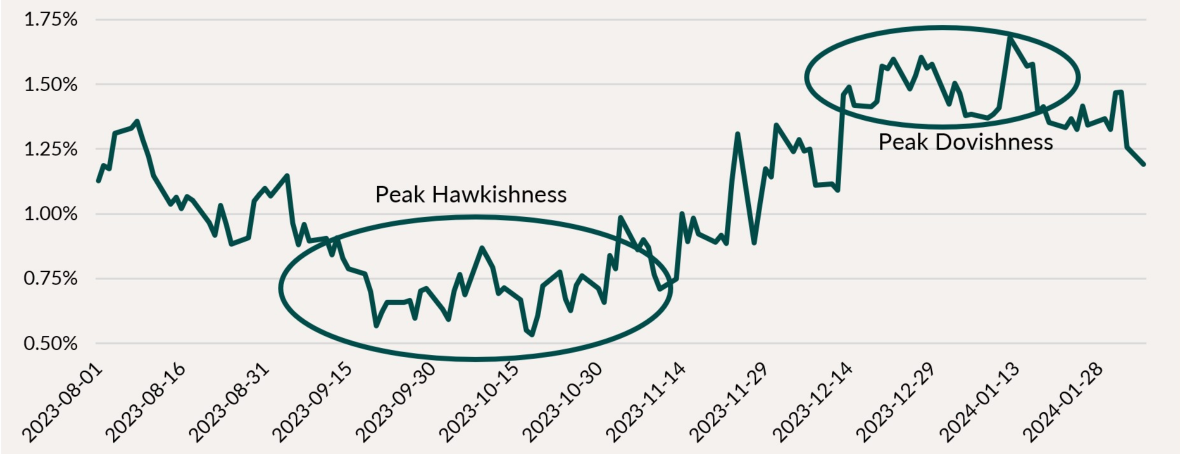
Summary

- North American economic growth continues to surprise to the upside, even here in Canada.
- Elevated wage growth will prevent a rapid normalization of services inflation.
- Global markets have an overly optimistic view on rate cuts.
- With inflation still above target, central bankers will drag their feet to ease policy.

In the interest rate markets, January was a little bit like a hangover from the New Year's celebrations. After a fast and furious rally in Q4-2023, driven by higher and higher rate cut expectations, it was only normal to see the pendulum swing back. Now that central banks are on hold, a good way to illustrate these mood swings is to look at rate cut expectations for the year ahead. Figure 1 below shows the history of market implied cumulative Fed Funds rate cuts by December 2024. As we know, September and October of 2023 saw peak hawkishness in the rates markets (only about 0.5% of cuts priced in for all of 2024), only to be followed by weaker economic data and a surprisingly dovish Fed, paving the way for the Q4 rally in pretty much every asset class (peak market euphoria was for as much as 1.7% of cuts in 2024).

Figure 1: The Interest Rate Pendulum
Expected Cumulative Fed Funds Rate Cuts in 2024

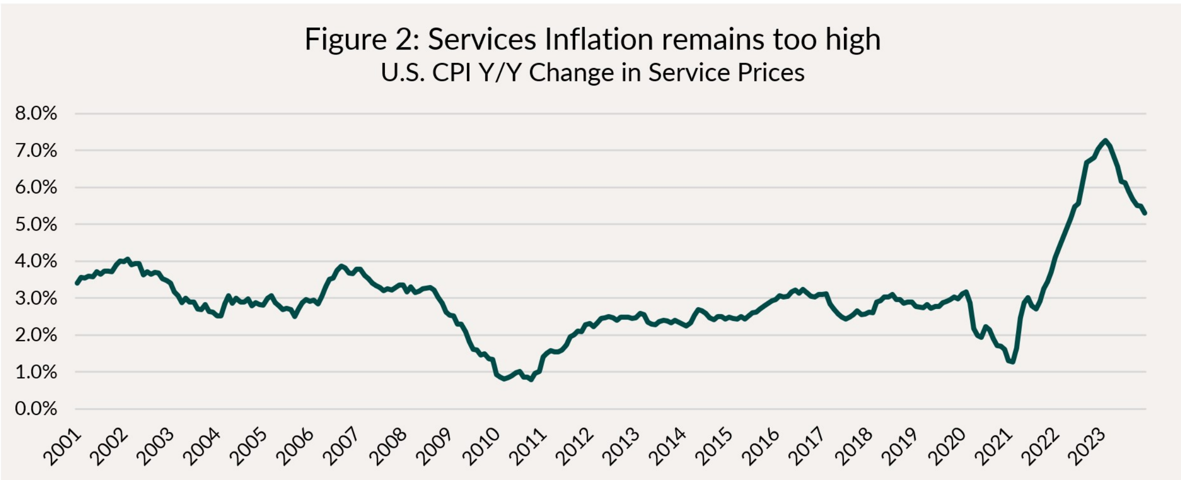


Source: Bloomberg, as of February 5, 2024

Now, with core inflation in Canada and the U.S. still above 3%, those rate cut expectations are clearly at odds with our central bankers' targets. Unsurprisingly, both Governor Macklem and Chair Powell made that point, at their respective January meetings, to pour cold water on this idea of imminent and large potential rate cuts. The Fed, through its famous Dot Plot, is guiding to only 0.75% of cuts this year, assuming inflation continues to behave as expected. Powell was clear during the press conference that followed, insisting that March is off the table for rate cuts. After all the heavy lifting that was done over the past 18 months to rein back inflation, it would be disingenuous to declare victory early, only to be proven wrong, and have to hike again.

It isn't too hard to understand why central bankers are wary of cutting too early. Looking at inflation category by category, a lot of the improvement in inflation has been driven by lower energy and goods prices. Services inflation (60% of the U.S. CPI basket) continues to run at elevated levels (Figure 2), reflecting, amongst other things, elevated wages and shelter costs. The mission hasn't been accomplished yet.

Note: the exact same set of arguments could be made about Canada, we simply focused on the U.S. situation for clarity of presentation.



Source: Bloomberg, as of December 31, 2023.

We therefore expect the first half of this year to be characterized by this tug-of-war between the Fed/BoC and markets, where central bankers try to hold rates steady for as long as possible, whereas market participants constantly recalibrate when, and by how much, the rate cut cycle will pan out. At this point, economic data will dictate the evolution of rates, and by extension all other risk assets. So far in 2024, data has surprised to the upside, even here in Canada, where GDP for November came in at 0.2% m/m, much better than originally expected. If this string of hot data continues, expect the pendulum to once again, swing to the hawkish side, creating a good entry point for those who want to increase allocations to fixed income.

Credit

Canadian and US investment grade spreads had a strong January tightening at 9bps and 5bps respectively. This move is impressive given January bond issuance set records in both Canada and the US. Investor appetite remains robust and the all-in yields that corporate bonds offer remain compelling, creating technical tailwinds for credit. We used the busy new issue market to proactively add to credits we like such as Canadian Western Bank and CIBC, in addition to Ford, who recently regained its investment grade rating. We also participated in the RBC preferred share new issue mid month, and with the extremely strong performance, we took profits and recycled the capital back into other attractive opportunities. In terms of sector performance, higher beta generally outperformed, specifically autos, bank sub-debt and REITs. Given our overweight exposure to bank sub-debt (albeit less so in recent months as we have been sellers into the strength) this helped drive performance in the month. Lastly, expect our HY allocation to continue to decline, as bonds come to maturity. With spreads back to historical lows, we do not find the High Yield market that attractive at this point in the cycle.

Individual Fund Commentary

Ninepoint Diversified Bond Fund

The fund remains defensively positioned with a focus on short-term investment grade bonds. Our High Yield weight moved down month-over-month from 15% to 12% given our sizeable High Yield maturities in the month. The average credit quality remains at BBB+ which we feel is prudent given our macro-economic outlook. The yield-to-maturity of the fund moved up 10bps month-over-month and now sits at 7.6%. Duration ended the month at 5.5 years while our short position in HYG (used for credit hedging purposes) remains at our target of -7%.

Ninepoint Diversified Bond Fund

	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	Nov 2023	Dec 2023	Jan 2024	Outlook
Government Bonds	100%	-2%	-4%	1%	22%	13%	9%	8%	2%	-7.0%	2%	1%	3%	3%	4%	5%	5%	5%	4%	5%	5%	5%	5%	↔
Investment Grade	80%	37%	66%	76%	58%	58%	80%	74%	76%	70%	65%	75%	67%	68%	74%	72%	76%	75%	76%	81%	80%	84%	89%	↔
High Yield	40%	32%	17%	13%	9%	6%	11%	11%	14%	18%	29%	23%	24%	24%	24%	25%	24%	24%	23%	20%	21%	15%	12%	↓
Emerging Market Governments	10%	0%	0%	0%	0%	0%	0%	1%	1%	1%	0%	0%	0%	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%	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%	-7%	-7%	-7%	↔
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%	-2%	0%	-1%	N/A
Cash and Equivalents		28%	15%	6%	9%	22%	6%	5%	1%	14%	0%	0%	6%	7%	1%	3%	2%	2%	3%	2%	2%	2%	2%	↑
Total		100%	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	2.3	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*	5.6*	5.3*	5.5*	↔
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	1.5	1.5	1.5	↔
Unhedged FX Exposure	20%	0%	0%	0%	6%	3%	5%	6%	4%	0%	0%	0%	1%	1%	1%	1%	1%	1%	0%	-1%	1%	0%	0%	↔

Source: Ninepoint Partners

Ninepoint Alternative Credit Opportunities

The fund remains defensively positioned with a focus on short-term investment grade bonds. The average credit quality remains at BBB+ which we feel is prudent while leverage remains historically low (by our standards) at 0.7x. The yield-to-maturity ended the month at 8.8% while duration ended the month at 3.0 years. Our short position in US High Yield ETFs (HYG and JNK used for credit hedging purposes) remains at our target of -11%.

Ninepoint Alternative Credit Opportunities Fund

	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	Nov 2023	Dec 2023	Jan 2024	Outlook
Government Bonds	100%	0%	0%	0%	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%	69%	71%	75%	↑
High Yield	40%	32%	22%	29%	27%	28%	24%	19%	19%	17%	14%	14%	13%	14%	12%	10%	9%	9%	10%	↓
ABS	20%	4%	6%	7%	11%	15%	18%	23%	23%	23%	23%	23%	25%	24%	23%	23%	23%	19%	19%	↔
Loans	10%	0%	3%	5%	5%	4%	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	2%	↓
Preferred Equities	10%	8%	3%	2%	1%	1%	1%	0%	0%	0%	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%	-11%	-11%	-11%	↔
Derivatives	+/- 2.5%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	-1%	-2%	-1%	0%	0%	N/A
Cash and Equivalents		-18%	19%	13%	5%	0%	3%	3%	7%	7%	2%	8%	4%	4%	4%	7%	6%	7%	3%	↔
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Duration	0 to 5 years	2.7	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*	3.6*	3.5*	3.0*	↔
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	0.7x	0.7x	0.7x	↔
Unhedged FX Exposure	<20%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	↔

Source: Ninepoint Partners

Ninepoint Credit Income Opportunities

The fund remains defensively positioned with a focus on short-term investment grade bonds. Our High Yield weight moved down month-over-month from 22% to 17% given sizeable High Yield maturities in the month. The average credit quality remains at BBB which we feel is prudent while leverage remains historically low (by our standards) at 0.7x. The yield-to-maturity ended the month at 9.5% while duration ended the month at 3.4 years. Our short position in US High Yield ETFs (HYG and JNK used for credit hedging purposes) remains at our target of -11%.

Ninepoint Credit Income Opportunities Fund

	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	Nov 2023	Dec 2023	Jan 2024	Outlook
Government Bonds	100%	0%	0%	0%	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%	65%	67%	73%	↑
High Yield	40%	24%	16%	6%	28%	26%	32%	33%	38%	31%	29%	27%	27%	26%	28%	30%	27%	23%	22%	22%	17%	↓
ABS	20%	3%	5%	5%	8%	15%	10%	14%	8%	10%	12%	11%	9%	9%	8%	9%	9%	9%	8%	6%	6%	↔
Loans	10%	3%	3%	2%	7%	6%	4%	8%	7%	9%	6%	9%	7%	8%	8%	8%	8%	8%	8%	7%	5%	↓
Preferred Equities	10%	4%	0%	0%	0%	5%	8%	2%	3%	2%	0%	0%	0%	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%	-11%	-10%	-11%	↔
Derivatives	+/- 2.5%	0%	-0.4%	0%	1%	1%	1%	1%	3%	1%	0%	0%	0%	0%	0%	0%	-2%	-2%	-1%	0%	0%	N/A
Cash and Equivalents		14%	28%	32%	8%	3%	1.2%	5%	1%	5%	12%	6%	9%	15%	13%	4%	4%	5%	4%	5%	3%	↔
Total		100%	100%	100%	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*	3.8*	3.6*	3.4*	↔
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	0.70x	0.70x	0.7x	↔
Unhedged FX Exposure	20%	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%	0%	0%	0%	↔

Source: Ninepoint Partners

Until next month,

Mark, Etienne & Nick
Ninepoint Partners

NINEPOINT DIVERSIFIED BOND FUND - COMPOUNDED RETURNS[1] AS OF FEBRUARY 29, 2024 (SERIES F NPP118) | INCEPTION DATE: AUGUST 5, 2010

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	0.5%	0.2%	3.8%	4.4%	4.2%	-1.1%	1.0%	2.2%	3.2%

NINEPOINT CREDIT INCOME OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF FEBRUARY 29, 2024 (SERIES F NPP507) | INCEPTION DATE: JULY 1, 2015

	1M	YTD	3M	6M	1YR	3YR	5YR	INCEPTION
Fund	1.0%	1.8%	4.8%	5.2%	5.9%	2.2%	5.1%	4.6%

NINEPOINT ALTERNATIVE CREDIT OPPORTUNITIES FUND - COMPOUNDED RETURNS[1] AS OF FEBRUARY 29, 2024 (SERIES F NPP931) | INCEPTION DATE: APRIL 30, 2021

	1M	YTD	3M	6M	1YR	INCEPTION
Fund	1.0%	1.5%	4.4%	5.6%	6.1%	0.3%

[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 January 31, 2024 [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 January 31, 2024. [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 January 31, 2024.

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