



Ten Years Later, And We're Just Getting Started | January 2025

“Birthdays are nature's way of telling you to eat more cake.”

Last week, we celebrated our firm's 10th birthday. It is hard to believe it has been a decade since we launched the Algonquin Debt Strategies Fund with a whopping \$3mm under management.

When we look back at those early days, we joke that ignorance was bliss. Had we known just how challenging those first years would be, we might have never taken the plunge.

Having traded fixed-income strategies for decades at the banks, portfolio management was the easiest part of the transition. The real challenges were everything else that came with running a business, with our first big obstacle being changing the toner in the printer.

It was like being stuck in a bad 'how many bond traders does it take to change the ink cartridge' joke. Full disclosure: the answer is three, with the help of a YouTube video.

The lesson of the 'toner debacle of 2015' was that with the right team and a bit of humour, we could take on the inevitable twists and turns of running a business. Over the years, we have been fortunate to assemble a talented, hard-working, and fun group, having gone from three of us managing 3mm to a team of fourteen with an AUM of almost 900mm.

A lot has changed over the decade, but a few things remain constant. For one, our vision to help investors get more from their fixed income. After all, our success is defined by the success of our clients. In this regard, we are pleased to say that not only have we delivered strong returns, but we have also been a fixed-income resource and partner to our clients.

Another constant has been our commitment to helping the less fortunate. Over the years, we have partnered with domestic violence charities, offered 70 scholarships, bursaries, and housing supports to youth aging out of the child welfare system, and most recently, funded the creation of a health network for victims and survivors of human trafficking.

Finally, throughout this journey, we have consistently held the belief that it takes a village to raise a fund. We want to take this opportunity to thank our villagers: our clients, service providers, trading counterparties, industry peers, and, of course, our friends and families. Without your support, we would not have survived the first ten years. And now, we look forward to what the next decade brings.

The Month of January.

Credit.

For Canadians, January was all about the tariffs. Our central bankers, governments, and markets were preoccupied with the impact of a potential trade war with our elephant of a neighbour. Meanwhile, the Americans seemed to disregard tariffs, either believing the threats were empty or the impact on their economy would be minimal.

This dichotomy led to a divergence in credit markets, with Canadian spreads leaking wider and the US tightening.

Investment grade credit spreads:

- Canadian spreads widened 4 bps to 103 bps.
- US spreads tightened 1 bps to 79 bps.

On the new issue front, the domestic market saw \$12.5 bn of supply to kick off the new year.

- The banks comprised 49% of the new deals and were also busy issuing outside the domestic market.
- There was considerable REIT issuance in the month, with both the banks and REITs issuing multiple floating rate notes (FRNs) to satisfy the demand for short-duration yield.
- January also saw the first maple bond (Prologis) to come under the new index inclusion rules, allowing new maple issuers to join the party.

Interest Rates.

As expected, the Bank of Canada (BoC) delivered another 25 bps cut, taking the overnight rate to 3%. With tariffs looming large over Canada, the bond market moved to price an additional 2-3 cuts from the BoC, leading yields to rally across the curve.

South of the border, elevated inflation and a strong labour market led the Federal Reserve (Fed) to hold rates steady. US yields drifted higher through the first half of the month, only to reverse that move and finish modestly lower.

Sovereign yields:

- Canadian 2y finished at 2.65% (-28 bps), and the 10y at 3.06% (-16 bps)
- US 2y finished at 4.20% (-4 bps), and the 10y at 4.54% (-3 bps)

The Funds.

Algonquin Debt Strategies Fund.

The Fund weathered the weakness in Canadian credit and finished the month in positive territory through active trading and the yield earned. For our OG Founding Investors, the month capped off a solid 10-year performance of 8.44% annualized.

Portfolio Metrics:

- 5-7% yield
- Average credit rating: A-
- Average maturity: 2.47y
- IR Duration: 0.77y

	1M	3M	6M	YTD	1Y	3Y	5Y	10y
X Class	0.28%	1.86%	4.79%	0.28%	10.99%	7.40%	5.60%	8.44%
F Class	0.23%	1.63%	4.26%	0.23%	9.75%	6.45%	4.75%	NA

* As of January 31st, 2025

The Algonquin Debt Strategies Fund LP was launched on February 2, 2015. Returns are shown on ‘Series 1 X Founder’s Class’ since inception and for ‘Series 1 F Class’ since May 1st, 2016, and are based on NAVs in Canadian dollars as calculated by SGGG Fund Services Inc. net of all fees and expenses. For periods greater than one year, returns are annualized.

Algonquin Fixed Income 2.0

The rally in Canadian rates, the portfolio yield, and active trading outweighed the weakness in domestic credit, producing a return of 0.69% for the month.

Portfolio Metrics:

- 4-6% yield
- Average credit rating: A-
- Average maturity: 3y
- IR Duration: 2.3y

	1M	3M	6M	YTD	1Y	3y	5y	SI
F Class	0.69%	2.42%	5.17%	0.69%	9.98%	8.54%	5.08%	4.84%

* As of January 31st, 2025.

Algonquin Fixed Income 2.0 Fund is an Alternative Mutual Fund and was launched on December 9, 2019. Returns are shown for Class F since inception and are based on NAVs in Canadian dollars as calculated by SGGG Fund Services Inc., net of all fees and expenses. Investors should read the Simplified Prospectus, Annual Information Form, and Fund Facts Documents and consult their registered investment dealer before making an investment decision. Commissions, trailing commissions, management fees, and operating expenses all may be associated with mutual fund investments. An Alternative Mutual Fund is not guaranteed, its value changes frequently and its past performance is not indicative of future performance and may not be repeated. Payment of quarterly distributions is not guaranteed and paid at the discretion of the manager; therefore, it may vary from period to period and does not infer fund performance or rate of return.

Looking Ahead.

With the tariff ‘can’ kicked out a month, the markets have returned to their regularly scheduled state of uncertainty. Given the chaotic nature of US policymaking, trying to plot a course forward is exceptionally challenging. Anything we write today will probably be ‘stale’ tomorrow. Nonetheless, we’ll give it a shot.

For Canadians, it seems reasonable to expect more rate cuts. In the absence of a trade war, we think the BoC will deliver one more cut, bringing the overnight rate to 2.75%, which is the middle of the estimated range for neutral. If we find ourselves in a serious trade war, we could see the Bank reducing rates below 2%. As a result, we believe it makes sense to have duration exposure in the short end of the Canadian yield curve.

South of the border, tariffs are just one of the things preoccupying markets, with immigration policy, tax cuts, government efficiency, and other initiatives on the horizon. Taking trade wars in isolation, if all the proposed tariffs are implemented, US inflation could rise to 3.5% in a few months. Rising domestic prices and counter-tariffs could also shave a point off US GDP growth, taking it to around 1%. This would put the Fed into the



quagmire of whether to treat the inflation rise as ‘transitory’ and focus on declining employment in a slowing economy or prioritize keeping inflation under control. With so many wildcards at play, assessing if US rates are cheap or expensive is impossible. Accordingly, we have opted to sit on the sidelines until the picture becomes clearer.

Given the speed and scope of new policy initiatives from the Trump administration, we suspect there will be unintended consequences (both positive and negative). Thus far, the reaction in credit markets has been muted, with the domestic market showing a little weakness, as expected. Although we significantly reduced exposure in December, the widening in Canada is not large enough to make us ‘greedy’. With all the policy uncertainty, our strategy is to remain nimble, harvest yield, trade the volatility and capitalize on the opportunities it creates.

Contact

Algonquin Capital
40 King Street West, Suite 3402
Toronto, Ontario, M5H 3Y2
www.algonquincap.com

Raj Tandon
Founding Partner
raj.tandon@algonquincap.com
+1 (416) 306-8401

Disclaimer

Algonquin Capital Corporation (“Algonquin”) is registered with the Ontario Securities Commission as an exempt market dealer, investment fund manager, and portfolio manager. This commentary is confidential and for authorized use only. Under no circumstances are its contents to be reproduced or distributed to the public, media, or potential investors without written authorization. The information contained herein, while obtained from sources believed to be reliable, is not guaranteed as to its accuracy or completeness.

The information contained in this commentary is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. This commentary by Algonquin is not, and does not constitute, an offer to sell or the solicitation, invitation, or recommendation to purchase any securities.

This commentary contains statements that constitute “forward-looking statements”. Examples of these forward-looking statements include, but are not limited to, (i) statements regarding future results of operations and financial condition, (ii) statements of plans, objectives or goals and (iii) statements of assumptions underlying those statements. Words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe”, “continue”, “probability”, “risk” and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements. Forward-looking statements included herein are based on current expectations and beliefs, and Algonquin disclaims, other than as required by law, any obligation to update any forward-looking statements whether as a result of new information, results, future events, circumstances, or if Algonquin’s expectations or opinions should change, or otherwise. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that such predictions, forecasts, projections, and other forward-looking statements will not be achieved. A number of important factors could cause Algonquin’s actual results to differ materially from the plans, objectives, expectations, estimates, and intentions expressed in such forward-looking statements. As such, undue reliance should not be placed on any forward-looking statement.