T'is The Season | November 2024

"We make a living by what we get, but we make a life by what we give."
Winston Churchill

In the spirit of the holiday season, we interrupt your regularly scheduled programming to highlight an important cause and the focus of our 2024 charitable giving.

This year, we partnered with the Anti-Human Trafficking Division of Victim Services to fund the development of a trauma-informed healthcare network. The objective of this program is to offer tailored medical services to victims and survivors of human trafficking.

Our donation is being used to hire a dedicated coordinator to establish long-term partnerships with healthcare providers, create coordinated service delivery protocols, and provide specialized training for healthcare professionals in trauma-informed care. Once established, this network will continue serving survivors well beyond the funding period, creating lasting systemic change in the care received by those impacted by human trafficking.

To learn more about and support Victim Services' efforts to help survivors of human trafficking establish independence and heal from trauma, visit their website via the links below. Together, we can break the chains of human trafficking and support survivors in rebuilding their lives.

Human Trafficking Prevention & Intervention

Human Trafficking Donation Form

The Month of November.

Credit.

The decisive results of the U.S. election paved the way for a strong rally in risk assets, with equity markets surging and credit spreads narrowing. As expected, the new issue supply was very light, as fears of market disruption around the election led to many companies issuing bonds earlier in the year.

Ultimately, the domestic market saw ~$4 bn of new transactions versus the usual $10 bn for November. Deals included new and rare names such as Gildan, Husky Midstream, Sleep Country (HY-rated), Metro and Fairfax. Volkswagen also did a multi-tranche issue.

We expect activity to pick up in the first half of December before grinding to a halt for the holidays.

Investment grade credit spreads:

- Canadian spreads tightened 8 bps to 102 bps.
- U.S. spreads tightened 6 bps to 78 bps.

Interest Rates.

Interest rates were volatile as markets digested the implications of a Republican sweep. After spiking higher following the election results, yields drifted lower as December rate cuts came back into focus. After all was said and done, rates finished lower and curves flatter, with long-end yields outperforming the short-end.

Sovereign yields:

- Canadian 2y finished at 3.04% (-3 bps), and the 10y at 3.08% (-13 bps)
- U.S. 2y finished at 4.15% (-2 bps), and the 10y at 4.17% (-12 bps)

The Funds.

Algonquin Debt Strategies Fund.

The Fund had another strong month with a return of 0.87% from the portfolio carry and performance in credit positions.

Portfolio Metrics:

- 5-7% yield
- Average credit rating: A-
- Average maturity: 3.2y
- IR Duration: 0.84y

	1M	3M	6M	YTD	1Y	3Y	5Y	SI
X Class	0.96%	3.76%	5.88%	11.86%	14.07%	6.79%	5.78%	8.49%
F Class	0.87%	3.42%	5.24%	10.60%	12.61%	5.86%	4.91%	NA

* As of November 30th, 2024

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 Fund had another good month, generating a 1.09% return from narrower credit spreads and lower rates. We used strength in the credit markets to crystallize some gains and reduce exposure, especially in securities that appear expensive. We also reduced/eliminated our exposure to U.S. interest rates and longer maturity domestic yields, preferring to focus on the under-5-year part of the Canadian bond market.

Portfolio Metrics:

- 5-6% yield
- Average credit rating: A-
- Average maturity: 3.6y
- IR Duration: 2.7y

	1M	3M	6M	YTD	1Y	2023	2022	2021	2020
F Class	1.09%	3.29%	6.98%	9.16%	12.97%	9.75%	-6.15%	2.42%	10.53%

* As of November 30th, 2024

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.

As Canadians, we get accustomed to our economy trending in the same direction as the U.S. As dangerous as it is to use these words, we believe that 'this time is different'.

In general, U.S. data paints a picture of a strong economy that needs little more than a modest reduction of monetary policy restraint. Although inflation has subsided, it remains stubbornly above target, and the labour market appears balanced. As a result, the Federal Reserve is likely biased to be more cautious with their cutting cycle.

Unfortunately, the situation north of the border appears to be very different. According to the Bank of Canada (BoC), the war against inflation has been won, with CPI back at target levels. Meanwhile, GDP has been below expectations and is trending towards 1%. And the labour market is failing to absorb the new entrants to the workforce, resulting in a steadily increasing unemployment rate.

As such, the BoC's focus has shifted to avoiding a recession. If the recently announced fiscal stimulus (HST holiday and 'helicopter money') is passed, it should temporarily boost economic activity but ultimately could just delay rather than prevent a recession. As a result, we think the terminal point for the domestic policy rate is probably closer to 2% than to 3%.

With credit spreads having narrowed, we believe the pace of further moves will be slower. However, this does not imply a widening in credit is imminent because spreads can remain around current levels for a long time. As such, credit selection and active management will become more critical for generating excess returns.

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