



What Are You Waiting For? | April 2016

"The waiting is the hardest part"
Tom Petty

Waiting is one of the most frustrating yet inevitable parts of life. We are all waiting for something. And when that something comes, we'll move on to waiting for something else. It's as certain as death and taxes, and we even wait for those.

Not all waits are created equal. They come in all shapes, sizes and lengths. Some can be filled with the excitement of anticipation, while others can be downright painful.

Unfortunately, it seems investors are currently enduring the latter type. It's similar to the predicament that befell Vladimir and Estragon in *Waiting for Godot*. Like the two protagonists, everyone seems to be anxiously waiting for something to happen, with no clarity as to when or even if the wait will end. Moreover, it isn't clear that anyone even knows what they are waiting for.

Are we waiting for equities to reverse once more or carry on to new highs? Are markets waiting for the Fed to hike rates or keep them on hold? Is the anticipation for inflation to rise or fall? Will the Raptors ever find their playoff nerve or are they doomed to fall at the hands of D Wade and the Miami Heat?

The good news is that when you are waiting for anything to happen, something eventually will. Hopefully at that point we will have more clarity as to which direction the markets are heading. In the meantime, we must remain patient, where our patience is measured by how well we behave while we wait.

The Fund

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	0.19%	1.49%	5.32%	3.51%	-	-	-	-	-	-	-	-	10.85%
2015	-	2.29%	2.51%	1.27%	2.46%	0.25%	0.73%	(0.25%)	1.68%	1.71%	1.37%	0.87%	15.86%

The Algonquin Debt Strategies Fund LP was launched on February 2, 2015. Monthly returns are based on 'Series 1 X Founder's Class' NAV as calculated by SGGG Fund Services Inc. and are shown in Canadian dollars, net of all fees and expenses.

After the spectacular rally in March, we expected a hangover of sorts in April as people anxiously anticipated the other shoe to drop. Given the nervous environment and a lack of compelling opportunities, we started off the month by reducing risk and focussing on our active trading strategies. Upon detecting that restless investors were beginning to pick away at dwindling bond inventories and with the relentless comeback in oil and equities, we decided to increase our exposure once more. Unlike March, when investment grade credit rallied sharply, the move in April was more of a grind, almost as if the advance occurred begrudgingly. Recognizing this, we opted to keep the portfolio composition tilted towards higher quality and shorter maturity securities so that we could scramble to safety if required.



Credit

The story in April was a simple case of demand continuing to outstrip supply. Despite expectations for a significant amount of new issuance this year, total volumes remain well below forecast, forcing impatient investors to clamour for new deals. A by-product of this drought was a steady tightening of credit spreads as portfolio managers were forced to pick over limited dealer inventories. The scarcity situation was further exacerbated when GE Capital Canada surprised the market with a tender to buy back up to \$5.2B of outstanding debt.

As battle-scarred bond market veterans know, prices rise until they don't. We expect to see an increase in new issues at some point in May, which investors will stampede to buy. While our intention is to be a part of the early rush, the key is to be ready to step aside should the trickle of new deals become a torrent that forces credit spreads wider once more.

Rates

Waiting for the Federal Reserve has been painful for the bond bears, as Ms. Yellen and company are moving slower than molasses in winter. Traders who have been hanging around for years salivating over the prospects of making easy money by being short bonds are going insane over the agonizingly slow pace of hikes. Governor Poloz has adopted a similar approach with his wait-and-see attitude towards changing Canadian rates. Although the Bank of Canada will likely keep overnight rates stable for some time, yields are set for a modest rise simply to accommodate the \$40 billion of additional government securities that will hit the street this year. Everyone will have to wait and see how high yields will drift to accommodate the bumper crop of government bonds.

Regards,

The Algonquin Team

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