



Algonquin Debt Strategies Fund LP | February 2015

The Fund

February's markets created an ideal environment in which to launch the Fund. We took advantage of wider corporate bond spreads to establish positions in various sectors such as REITs, energy infrastructure and financials. The robust new issuance market provided significant opportunity to diversify the portfolio at attractive levels. The portfolio consists primarily of investment grade corporate bonds, along with a modest allocation to high yield credit. Interest rate exposure, as of the end of February, was largely hedged out to focus primarily on opportunities in credit.

Rates

The surprise rate cut by the Bank of Canada in January pushed short-term interest rates to historically low levels as the market positioned for further cuts in Q1. Although some of this move reverted following the Bank of Canada's decision to leave target overnight rates unchanged on March 4th, we still find that short-end yields remain unjustifiably low. Although yields are likely to move modestly higher, our view is the Bank of Canada will not raise rates this year as the Canadian economy is still adjusting to low oil prices.

In terms of the US market, the debate as to the timing of "lift-off" continues. We believe that the Federal Reserve will remain cautious in its approach to raising rates as the stronger US dollar, tepid wage growth and subdued inflationary pressure provide ample cover for the Fed to move slowly. That said, we expect job growth and consumer demand to remain strong, which will likely compel the Federal Reserve to raise rates during the second half of the year.

Credit

Following a slow start to the year, Canadian credit markets improved significantly in February. Through the month we saw C\$ 16 billion of new investment grade corporate bonds issued, bringing the year to date total to C\$ 18 billion. The largest Canadian corporate bond offering of the year (so far) was a huge C\$ 2.25 billion deal from RBC in 7 year senior funding. This will be an active year for domestic banks in raising capital and term funding both at home and abroad. Corporate issuance should remain strong in March, although price concessions will likely diminish due to high demand. Barring negative developments in the ongoing "Greek Tragedy" we expect the demand for credit to remain robust.

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