



Weather the Storm | June 2015

"The storm starts, when the drops start dropping. When the drops stop dropping then the storm starts stopping."

Dr. Suess

The Fund

June proved that when it rains, it pours. Investors not only endured heavy rainfall, but also some rather ugly investment returns. The former we will leave to the meteorologists to explain, the latter we attribute to the crisis in Greece and the insanity that is the Chinese stock market. For the month, the S&P/TSX was down 3.07% while the FTSE Canada Universe Bond Index lost 0.56% (so much for bonds providing diversification!). Over the same period, we generated a positive 0.25% return for our investors.

Heading into the month we were skeptical about the negotiations in Greece and apprehensive about the market's ability to absorb the endless wave of bond supply. Accordingly we upgraded the quality of our holdings and reduced our outright core duration and credit risk as we moved into capital preservation mode.

With the endgame for Greece in sight, and credit cheapening back to levels seen in late fall, we are looking for buying opportunities. That said, we would like to see an improvement in liquidity before becoming particularly aggressive.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
N/A	2.29%	2.51%	1.27%	2.46%	0.25%	-	-	-	-	-	-	9.07%

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.

Credit

June was a challenging month for BBB sector credit spreads which widened 5 to 15 bps. Not only has there been a deluge of supply, but the downgrade of various Enbridge entities to BBB+ by S&P has resulted in institutional accounts selling BBB bonds to stay within their investment mandates. As a result, dealers who are increasingly reluctant to add to already bloated inventories, have cheapened their offerings and widened bid/offer spreads.

New issues have offered greater price concessions but fresh supply has simply tended to re-price existing bonds cheaper. We believe this is a sign that the current weakness could persist for some time. The market certainly needs several weeks of reduced supply in order to digest the issuance to date. Although we have adopted a defensive posture, with the portfolio invested in short maturity bonds, we anticipate increasing risk as we see interesting opportunities unfold.



Rates

Even though the now famous FOMC '[Dot Plot](#)' suggests the Fed is likely to hike rates for the first time in nine years this September, the turmoil surrounding Greece has the US market struggling to decide where rates should be. While we anticipate a September hike, we recognize that the Fed will not hesitate to delay liftoff if the financial markets haven't settled down by then.

In Canada, the commodity sector continues to exert a remarkable drag on GDP, while lower gasoline prices and a weaker loonie have yet to stimulate other parts of the economy. Following the negative April GDP print, it certainly looks as though the Canadian economy may contract for the second quarter in a row. From our humble office near the lake, we can almost hear the bank economists on Bay Street whispering the 'R' word. Following the advice of John Maynard Keynes "When my information changes, I alter my conclusions. What do you do, sir?" we are dropping our view that the Bank of Canada will not cut rates again this year. The odds certainly favour another cut as early as mid-July.

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