# The Medium Is The Message | November 2021

"We become what we behold.
We shape our tools and thereafter our tools shape us."
Marshall McLuhan

For most of us, there are times when the cyclone of modern media can be overwhelming. The constant bombardment of facts, figures, and news can leave us feeling more confused than informed.

This is the whirlpool Canadian philosopher Marshall McLuhan foreshadowed and compared to Edgar Allan Poe's 'A Descent into the Maelstrom'. The harrowing story of three Norwegian fishermen that get caught in an oceanic vortex.

For McLuhan, our maelstrom is the result of rapidly adopting new forms of electronic media without understanding the effects these advanced technologies have on our lives and psyche. Luckily for us, like the one old fisherman that lived to tell the terrifying tale, McLuhan also had a way to escape our media vortex.

McLuhan's approach was to look beyond the factoids being flung at us and to focus on the vortex itself, understanding its patterns and structures. He encapsulated this concept in the very famous and pithy line, 'the medium is the message'.

The idea being that how we communicate and receive information is more important than the content of the information itself. The advent and adoption of Netflix as a new media is far more consequential to our lives than any particular program (yes, even Squid Game).

Furthermore, the types of media and technology we choose to adopt will have a profound and ubiquitous influence on every aspect of our lives. Not only do we make the tools, but the tools make us as well.

At the time of his writings, the innovation reshaping society was television. McLuhan saw this as part of the transition from our literary heritage into an age of electronic media. He viewed this shift as a return to the oral traditions that predated the printing press.

But instead of being confined to the local people, culture, values, and norms, these future interpersonal exchanges would occur within a diverse and heterogenous 'global village'. And through new technologies, all of us could plug into this expansive external universe.

Not bad foreshadowing for someone who passed before the internet was even invented. The World Wide Web has indeed created a global village where the ability to disseminate and access information has been greatly democratized. Never before has there been so much access, all the time, to everything, for everybody.

What McLuhan could not imagine is the widespread use of artificial intelligence and algorithms that funnel us into narrower and narrower echo chambers, instead of exposing us to a diverse spectrum of ideas. While we may have returned to the oral traditions of the past, Johnny is no longer the only flat-earther in the village but lives in an online village full of flat-earthers.

The broader societal implications of such technologies are beyond the scope of our humble commentary. However, as portfolio managers and investors, it is worth considering how they influence our decision-making.

After all, a key component of a disciplined investment process is playing devil's advocate and challenging one's ideas with contrarian views. Under the best of conditions, confirmation biases make this a difficult process, as we tend to focus on data supporting our arguments and discount conflicting evidence. With robots feeding us more of what we 'want', overcoming this obstacle becomes even harder.

Furthermore, the barrage of similar content from different sources gives us the illusion of a greater consensus than exists. It's like a brazen CEO asking for feedback on their bold idea from a boardroom full of yes-people. It only exaggerates overconfidence.

Spend just ten minutes viewing crypto videos on YouTube and watch how your feed changes. Keep clicking and pretty soon you are in a world where the only option is to mortgage your house and buy bitcoin.

The solution, as proposed by McLuhan, is to be aware. To understand the structures and patterns of our media landscape and how they influence and shape us. Unfortunately, this is no easy task. Living in such a pervasive and ubiquitous media environment makes it difficult to perceive the forest for the trees. Or as McLuhan put it, 'we don't know who discovered water, but we know it wasn't a fish.'

## The Month of November.

### Credit.

A confluence of factors led to a very weak month for credit. The Omicron variant led to fears of economic disruption, causing a significant repricing of corporate debt. On the heels of these variant concerns, Fed Chairman Powell shelved the word 'transitory' to describe inflation, creating substantial rate volatility. Add to this a November record of $15 bn in new issue supply, and credit spreads experienced their worst month since March 2020. Energy and REIT-related issuers underperformed, while high-quality regulated utility and infrastructure names faired the best.

Generic Investment-Grade Credit Spreads:

- Canadian spreads widened 9 bps to finish at 111 bps
- US spreads widened 12 bps to finish at 99 bps

The domestic market saw several interesting deals last month. Notably, Nestle issued an inaugural $2 bn 'Maple' bond, and Bruce Power came with the world's first nuclear reactor-based bond to tick the 'Green' boxes. November also saw M&A-related financings from CP Rail and Sunlife and a $1 bn dual-tranche deal from Inter Pipeline.

### Interest Rates.

Rates were a mixed bag, with Canadian investors concluding that too many rate hikes were built into next year, resulting in yields drifting lower. On the other hand, with the Federal Reserve inching towards acknowledging that rate hikes are coming, the yield curve flattened as portfolio managers were comforted that inflation risks had not been forgotten.

Sovereign yields:

- Canadian 2y finished at 0.98% (-11bps) and the 10y at 1.58% (-14 bps)
- US 2y finished at 0.52% (+2 bps) and the 10y at 1.43% (-12 bps)

## The Funds.

### Algonquin Debt Strategies Fund

After months of devouring all the supply on offer, portfolio managers finally exhausted their cash and were forced to sell seasoned issues to buy new bonds. With dealer inventories swelling, 'Black Friday' discounting was the flavour of the month. Defensive positioning through lower than customary leverage as well as derivative hedges blunted some of the losses, but it was not enough to overcome one of the worst months for credit since March 2020.

The silver lining is that with plenty of capacity, a much better hunting ground exists for us to put capital to work.

| | 1M | 3M | 6M | YTD | 1Y | 3Y | 5Y | SI |
|---|---|---|---|---|---|---|---|---|
| X Class | -0.38% | 0.44% | 0.77% | 3.03% | 4.33% | 5.49% | 5.43% | 9.24% |
| F Class | -0.40% | 0.30% | 0.49% | 2.40% | 3.56% | 4.65% | 4.61% | NA |

As of November 30th, 2021

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 decrease in interest rates slightly benefited the fund, however with duration still lower than normal, the gain was not enough to fully offset the impact of wider credit spreads. We believe rates will drift higher in the coming months so we continue to maintain a defensive duration position, however, we intend to use the backup in credit to add attractive securities to the portfolio.

| | 1M | 3M | 6M | YTD | 1Y | 2020 |
|---|---|---|---|---|---|---|
| F Class | -0.37% | 0.47% | 0.58% | 1.76% | 3.23% | 10.53% |

As of November 30th, 2021

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 holiday season upon us, the supply glut in the corporate bond market will get a chance to clear up creating the potential for spreads to recover as the inventory overhang gets cleaned up. Although the developing Omicron story is something to keep an eye on, we expect positive economic growth to continue which provides a tailwind to credit quality.

Central banks have signalled that overnight rates are moving higher next year. The only questions remaining are the launch date and the number of hikes to expect. As a result of the jockeying, yields will be somewhat volatile. The omnipresent risk of Covid variants as well as the escalating tension between Russia and Ukraine could lead to a slower pace of hikes than the market is prepared for.

## Contact


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