



'Tis The Season | November 2023

“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 decided to forego the usual musings that we begin our commentaries with, to highlight a cause that is near and dear to us.

Over the past few years, we have focused our charitable giving on helping particularly vulnerable populations and those facing especially difficult circumstances. Through our research, one of the groups identified as facing extreme challenges and potentially devastating outcomes was children growing up without a stable home and family support.

Due to circumstances beyond their control and through no fault of their own, 59,000 children and youth are currently in government and foster care across Canada. These are our nation's most at-risk young people, facing a tremendous uphill struggle to end the cycles of abuse, neglect, and poverty.

While many people are aware of and can understand the plight of those in the child welfare system, a group that is often overlooked is the youth transitioning from care to independent living.

Each year, approximately 2300 young people 'age out' of government care. Under the current child welfare system, youth as young as 18 are required to leave their foster homes or institutional settings to navigate life on their own. Too often this is a transition from care into poverty and homelessness.

Relative to their peers, youth leaving care are 200 times more likely to experience homelessness and are at significantly higher risk of becoming victims of human trafficking. Many of them are unequipped to navigate securing stable housing and lack the financial resources for such things as first & last month's rent, deposits, moving fees, and home essentials.

This housing security also bleeds into another area where the odds are stacked against these young people, education. While most of the youth in care want to pursue higher education, the reality is only around 20% do, with one of the biggest barriers being the costs of post-secondary education. However, without the necessary training, degrees, and diplomas, it is even more difficult for them to secure stable employment and spin out of the poverty cycle.

To help bridge these gaps Algonquin has partnered with Children's Aid Foundation of Canada (CAFDN) to offer 10 post-secondary scholarships and housing supports for 20 youth. These are just two of the programs offered by CAFDN, in their mission to improve the lives of children, youth, and families involved in the child welfare system.

By working with over 100 agencies across the country, Children's Aid Foundation of Canada delivers high-impact, evidence-based programs that help these young people access the resources and opportunities that will enable them to go from surviving to thriving.

To learn more about CAFDN and how you can stand up for Canada's kids, please visit their website: <https://cafdn.org/>



The Month of November.

Credit.

Apparently, ‘higher for longer’ was just a drill. Rates rallied hard in November, and with that came an everything rally in risk assets. Equity markets had a phenomenal month, and credit came along for the ride, although Canada significantly underperformed the US. Domestic investment-grade spreads narrowed 13 bps (vs. 25 bps down south) as the cross-border gap in credit grew larger.

- Canadian spreads tightened 13 bps to 142 bps
- US spreads tightened 24 bps to 104 bps

The domestic new issue market saw a respectable \$12 bn in new supply, with notable deals from the recently upgraded Ford as well as Suncor and Capital Power. With strong demand for corporate bonds, the new deals were well received. Although Bell was part of the new issuance with a two-tranche deal, expectations for more telco/cable supply were revised down after a lacklustre spectrum auction.

Interest Rates.

Anyone hoping for interest rate volatility to let up was sorely disappointed. After flirting with 5% in late October, the US 10y rallied 61 bps with yields across the curve significantly lower. The rally was spurred by favourable inflation and employment data with the mention of rate cuts by the normally hawkish Fed adding fuel to the fire.

Sovereign yields:

- Canadian 2y finished at 4.19% (-44 bps) and the 10y at 3.55% (-51 bps)
- US 2y finished at 4.68% (-41 bps) and the 10y at 4.33% (-61 bps)

The Funds.

Algonquin Debt Strategies Fund.

The fund had a strong month driven by the portfolio yield and the performance in credit spreads, with both active credit and rates trading further adding to the performance.

Portfolio Metrics:

- 9-10% yield
- IR Duration: 1.3y
- Average maturity: 1.6y
- Average credit rating: A-

	1M	3M	6M	YTD	1Y	3Y	5Y	SI
X Class	2.04%	2.85%	5.34%	8.83%	9.88%	3.66%	4.62%	7.87%



F Class	1.87%	2.55%	4.76%	8.02%	9.02%	2.94%	3.84%	NA
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*As of November 30th, 2023

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 an incredibly strong month driven by the remarkable rally in rates, performance in credit, and the yield earned on the portfolio. With bond traders now betting that the start to an aggressive easing cycle is just a few months away, we have reduced duration to a neutral level. We anticipate increasing duration once again when yields move modestly higher.

Portfolio Metrics:

- 7.5-8.5% yield
- IR Duration: 4.3y
- Average maturity: 3y
- Average credit rating: A-

	1M	3M	6M	YTD	1Y	2022	2021	2020
F Class	3.75%	2.22%	2.45%	6.05%	6.04%	-6.15%	2.42%	10.53%

*As of November 30th, 2023

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.

It appears more and more likely that we have seen the last of the rate hikes and are at the peak for overnight rates. As we type, current yield levels reflect the expectation for rate cuts to begin in the spring or early summer. And by this time next year, the Fed and BoC are expected to have lowered their policy rates by 1.5%. With so many cuts priced in, there is now the potential for stronger than anticipated economic data (i.e., inflation, employment) to temper these expectations and push yields higher.

As we have discussed before, by the time the average person hears that the central banks are cutting rates, bond yields will have already moved sharply lower. As an example, the Canadian 10-year bond is currently trading around 3.30%. If the BoC cuts the overnight down to 2.5-3%, today’s pricing would imply very little term premium. As a result, it is entirely possible that long-term yields will not move much lower (or perhaps go higher) unless the BoC lowers rates to 2% or below.



In terms of credit, Canadian investment grade spreads continue to underperform the US and high-yield markets, and on a relative value basis are cheap to both. While the valuations are attractive, given the Canadian economy's sensitivity to higher rates, it is reasonable to expect more bumps on the road north of the border. As such, we remain focussed on domestic credit with a medium level of exposure and a tilt to higher-quality, more liquid issuers.

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