The Waiting Game | April 2025

'The waiting is the hardest part.'
Tom Petty

In today's world of instant gratification, patience is a rare commodity. After all, a mere 10-minute delay on Uber Eats feels like an unbearable 'why me' moment. Why are they taking so long to pick up the order? Did they get lost or take a wrong turn?

Simply put, waiting sucks, especially when the wait times and outcomes are unknown. It is always harder to summon our patience when we don't know how long or even what we are waiting for. These two uncertainties make the current edition of the 'waiting game' particularly challenging for investors to endure.

The flood of policies and reversals that characterized the first 100 days of Trump's presidency led to a bit of 'turbulence', with the wild policy swings mirrored in the markets.

As we type, equities have recovered from their precipitous post-liberation day decline. The recent bout of optimism is fueled by expectations of a de-escalation in the trade wars. But even if tariffs are significantly dialled back, the damage from the uncertainty could be much harder to reverse.

Surveys indicate a significant decline in consumer and business confidence, suggesting reduced spending, hiring, and investment. Furthermore, anecdotal evidence suggests a sharp drop in cargo, companies engaging in cost-cutting measures, and retailers anticipating product shortages and higher prices.

The assumption is that negative sentiment and uncertainty will eventually weigh on growth and cause a slowdown, if not a recession. However, saying and doing are two very different things. Or, in other words, will the weak soft data (sentiment/confidence) translate into behaviour that impacts the hard data (i.e., GDP, inflation, employment)?

So far, the economic numbers have offered mixed signals. Q1 data, while noisy, pointed to the worrisome trend of slower growth and higher inflation, but employment and spending remained strong. For now, it seems consumers and businesses are in wait-and-see mode, not drastically cutting spending or laying off workers (yet).

We also expect the Fed and BoC to adopt a similar approach, preferring to wait for more clarity before acting. Unfortunately, for central bankers and investors, achieving any form of clarity could take a few months.

In the meantime, the expectation is that trade policies, geopolitical tensions, and 'pervasive uncertainty' will cause a drag on economic growth. This, in turn, will lead to further interest rate cuts. What remains to be seen is whether the damage is more or less than expected.

Over the coming months, we expect markets to adjust and readjust risk premiums based on the incoming economic data, with employment perhaps being the most important indicator. In the meantime, our mantra to investors is 'patience'. For now, your order is still being prepared, a driver has not yet been located, and it is still unclear what will even turn up at your door.

The Month of April.

Credit.

The month-over-month changes in credit markets mask both the volatility and dispersion in spread movements. The domestic market saw investment grade spreads widen 20-30 bps after 'reciprocal tariffs' were unveiled, with some issuers such as Ford Credit Canada out 85 bps at the height of the sell-off. Once the 90-day pause was announced, credit participated in the overall market rally.

The volatility kept issuers on the sidelines, with a meagre $2.9 bn in new domestic supply. This was the lowest April tally in decades, with the only notable issue being a $1.6 bn 2-tranche hybrid deal from Telus. The lack of supply and cash building in bond portfolios reduced selling pressure and contained the spread damage.

Investment grade credit spreads:

- Canadian spreads widened 1 bps to 114 bps.
- US spreads widened 12 bps to 106 bps.

Interest Rates.

To use a technical term, rates markets were downright 'bonkers', with US 10y yields swinging from 3.86% to 4.59%. The initial reaction to 'liberation day' was a sharp move lower as traders priced in six rate cuts by the Federal Reserve this year and four from the Bank of Canada.

Within days, rates reversed course and shot 50-60 bps higher. Speculation on the reasons ranged from foreign selling of treasuries (most likely not true) to the unwinding of levered treasury positions (probably true), and Trump's threats of firing Powell (just kidding).

After a few tense days of 20 bps ranges, the market settled down with investors betting on three cuts from the Fed and two by the BoC. At this point, we think the market's assumption is reasonable.

On a positive note, for the last week or so, the daily range in sovereign yields has returned to normal, suggesting that bond markets now reflect consensus views on inflation and growth rather than being driven by technical factors.

- Canadian 2y finished at 2.48% (+2 bps) and the 10y at 3.09% (+11 bps)
- US 2y finished at 3.61% (-28 bps) and the 10y at 4.16% (-4 bps)

The Funds.

Algonquin Debt Strategies Fund.

The sell-off in credit ate into the yield earned and profits from active trading, resulting in a slight loss for the month. We continued to maintain a defensive risk posture and utilized the positive tone in the second half of the month to upgrade the portfolio in terms of credit quality and liquidity.

Portfolio Metrics:

- 5-6% yield
- Average credit rating: BBB+
- Average maturity: 2.4y
- IR Duration: 0.9y

	1M	3M	6M	YTD	1Y	3Y	5Y	10y	SI
X Class	-0.19%	-0.21%	1.65%	0.08%	7.60%	8.56%	8.25%	7.76%	8.20%
F Class	-0.24%	-0.33%	1.30%	-0.10%	6.58%	7.60%	7.37%	NA	NA

* As of April 30th, 2025

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 benefited from exposure to short-end (i.e., 5y and under) US rates. The gains from US duration and the portfolio yield offset losses from higher credit spreads and Canadian yields, resulting in a small gain for the month.

Portfolio Metrics:

- 4-5% yield
- Average credit rating: BBB+
- Average maturity: 3y
- IR Duration: 3.5y

	1M	3M	6M	YTD	1Y	2y	3y	5y	SI
F Class	0.12%	0.61%	3.04%	1.30%	10.55%	8.25%	7.25%	6.04%	5.01%

* As of April 30th, 2025

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.

Following the sharp reaction to the greater-than-expected reciprocal tariffs, markets appear to have concluded that trade-related news will generally trend towards de-escalation going forward, allowing for an air of optimism to return.

While we agree that most of the announcements from the White House will focus on the great deals they have negotiated, we suspect these agreements will be big on principle but short on detail. For the most part, tariff rates will likely fall, but without specific details and timing, confusion likely persists.

The uncertainty and significant changes being wrought to global trade have widened the range of possible economic outcomes in the US. The administration is betting that tariffs will quickly attract capital investment in domestic production, which will bolster confidence and propel the economy into a period of strong growth.

However, given the damage to confidence and the policy uncertainty, we find it difficult to foresee companies expanding production and investment. Many businesses have pulled forward guidance due to the uncertain business conditions that can be upended by a new policy, trade deal, or a post on Truth Social. As such, we suspect corporate America will adopt a 'wait and see' approach, holding off on hiring and capital expenditures. This implies slower growth and the possibility of a recession.

Unfortunately, it will take several months before there is enough data to gauge the extent of economic pain or lack thereof. As a result, in terms of portfolio management, we are practicing what we preach: patience. For now, our bias is titled towards the 'pervasive uncertainty' causing an economic contraction. This, coupled with current valuations leaning on the optimistic side, leads us to manage our portfolios from a defensive risk posture.

Contact

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