DECEMBER 2019

Q4 report

Equities markets finished the year on a positive trajectory with the strongest investment themes reflecting better economic data – the same themes benefitting the Barometer portfolios into year-end.

During the fourth quarter equity markets rallied as investors saw key market concerns ease and recession fears abate. As a result, global markets adopted a risk-on posture.

With material progress being made on the U.S.-China trade front, tensions have de-escalated, and cyclically sensitive assets and sectors rallied. The technology sector was the best performing sector in the S&P 500 lead by the semiconductor industry. The semiconductor industry, in particular, is an important gauge to measure economic strength, and Barometer portfolios were beneficiaries of this outperformance due to the sizeable positions built at the beginning of the quarter.

The healthcare sector fell back into favour as more left-leaning Democratic presidential candidates released their healthcare plans with less potential negative impact than feared. While headline risk is still abound, moderation of the rhetoric from the political left in the U.S. let some of the pressure off of the sector. Traditionally defensive sectors like real estate, utilities, and consumer staples underperformed during the quarter. While earlier in the year these sectors continued to rally alongside riskier assets; credit conditions remain favourable.

Both investment grade and high yield spreads remained tight and companies currently have easy availability to credit. During the fourth quarter, the yield curve steepened benefiting financials, a sector that borrows short and lends long. As U.S. long interest rates increased throughout the quarter, the bond market sold off.

The Federal Reserve continued to emphasize accommodative policy throughout the quarter, even communicating their comfort with allowing inflation to run up to one percent higher than the target rate. This reassured markets.

Barometer Tactical Income Pool

The Barometer Tactical Income Pool benefitted most significantly from exposure to the financials and information technology sectors, with financials sector weight increasing from approximately 15% to 46% and technology

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sector weight remaining flat at approximately 16%. Within the financials sector, the Pool built exposures to various industries, namely, diversified banks, custody banks, ratings agencies, and insurance, with all industry exposures contributing positively to the Pool's performance. Across the board, the financials sector experienced some relief from pressures imposed by generationally low interest rates. As interest rates increased throughout the quarter, profitability outlooks drastically improved for many of these companies and capital began to flow back into the sector. Through Barometer's early recognition of this trend, the Pool was able to take positions in names like State Street Corp. (SST:NYSE), and large U.S. banks like JPMorgan Chase & Co. (JPM:NYSE), Citigroup Inc. (C:NYSE), Bank of America Corp. (BAC:NYSE), and Wells Fargo & Co. (WFC:NYSE), all of which put up a strong fourth quarter.

Within the technology sector, the Pool benefitted from exposure to large cap names like Apple Inc. (AAPL:NASDAQ) and Microsoft Corp. (MSFT:NASDAQ), most positively. Apple has performed exceptionally well as investors anticipate continued strong growth in their wearables segment, and a 5G iPhone to be released in the back half of 2020.

Exposure to the consumer staples sector detracted from performance during the quarter, as names with more defensive characteristics like Procter & Gamble Co. (PG:NYSE) and Mondelez International Inc. (MDLZ:NASDAQ) began to fall out of favour as investors took a more cyclical tilt. The Pool's two holdings in the consumer discretionary sector, McDonalds Corp. (MCD:NYSE) and Home Depot Inc. (HD:NYSE), both reported disappointing same-store-sales metrics while reporting third-quarter results and subsequently sold-off, so they were removed from the pool.

Barometer Tactical Balanced Pool

Exposure to the financials and information technology sector contributed most positively to performance in the Barometer Tactical Balanced Pool while exposure to traditionally defensive sectors like utilities and consumer staples slightly detracted.

The Pool increased exposure to the financials sector from approximately 20% to 29% over the course of the quarter, adding exposure to Bank of America Corp., IA Financial Corp. Inc. (IAG:TSX), and Manulife Financial Corp. (MFC:TSX), all of which contributed positively to performance. The Pool also slightly increased technology exposure from approximately 11% to 14%, adding Apple and Intel Corp. (INTC:NASDAQ). Apple continues to perform exceptionally well as investors anticipate continued strong growth in their wearables segment, and a 5G iPhone to be released in the back half of 2020. Intel has benefitted from the broader strength in the semiconductor industry.

Within the consumer discretionary sector, the Pool owned Home Depot Inc. and DR Horton Inc. (DHI:NYSE), which both detracted from the Pool's performance during the quarter. After reporting weak same-store-sales during their third-quarter earnings report, Home Depot sold-off rather severely and the Pool was

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stopped out of the position. As a homebuilder, DR Horton Inc. benefits from low-interest rates, so as rates began to climb, the name sold off and the Pool was stopped out. Similarly, as rates increased throughout the quarter, rate sensitive names like Emera Inc. (EMA:TSX), a Canadian based utility company fell out of favour, so it was sold by the Pool.

Barometer Equity Pool

The Barometer Equity Pool benefitted from remaining fully invested throughout the entire quarter, and specifically benefitted from exposure to the information technology and financials sectors. The Pool's weight in technology was increased from approximately 20% to 29%, notably adding new positions in NVIDIA (NVDA:NASDAQ) and Shopify Inc. (SHOP:TSX), and adding to existing positions in Lam Research (LRCX:NASDAQ) and Teradyne (TER:NASDAQ). Within the technology sector, the Pool saw strong performance from exposure to semiconductor names like NVIDIA, but even stronger performance from semiconductor equipment names like Lam Research, Teradyne, Applied Materials (AMAT:NASDAQ) and Keysight Technologies (KEYS:NYSE). All of which benefit from expected ramping spend from semiconductor manufacturers as the semiconductor cycle troughs and starts to accelerate out of its trough.

The Pool also benefitted from exposure to the financials sector, with exposure increasing from approximately 13% to 21%. State Street Corp. contributed most positively to performance within the sector, as higher rates in the U.S. provides welcome relief to their bottom line, further assisted by cost-cutting programs that saw continued positive results through the quarter. Firming equity markets also help the company's asset management business.

Exposure to the staples and real estate sector detracted from performance during the quarter, as companies with defensive characteristics that were owned by the Pool fell out of favour. Namely Mondelez International Inc., Metro Inc. and Summit Industrial Income REIT (SMU:UNSTSX), where investors like to flee in times of distress sold-off and was sold-out of the portfolio during the quarter.

Barometer Global Macro Pool

The Barometer Global Macro Pool's exposure to North American Equities, specifically within the tech sector, contributed most positively to performance. The Pool's short position in the iShares 20+ Year Treasury Bond ETF (TLT:NASDAQ) was the best performing position, as the bond market sold off following the blow-off top seen in the third-quarter. The pool also benefitted from a short position in volatility as the asset class sold off during the quarter. As global markets began to adopt a risk-on posture during the quarter, the pool benefitted from firming commodity prices, namely in base and precious metals, but also in oil. With this risk-on posture, Emerging Markets, specifically China finally saw some buying support. The Global Macro Pool carried an approximate 15% weight in China throughout the quarter, but positions were also added in

India, Brazil, and Russia, bringing the Pool's weight in Emerging Markets from 17.5% to 30%.

Barometer Long Short Pool

Exposure to the energy, financials, and materials sectors contributed most positively to performance while exposure to the consumer discretionary, utilities, and consumer staples sectors detracted from performance.

Within the energy sector, names like Arc Resources Ltd. (ARX:TSX), Tourmaline Oil Corp. (TOU:TSX), and Kelt Exploration Ltd. (KEL:TSX) saw a lift on the back of higher oil prices. In the financials sector, IA Financial Corp. Inc. and AXA Equitable Holdings Inc. (ECH:NYSE) benefitted from firming equity markets. AXA Equitable, specifically, is levered to healthier equity markets due to their ownership stake in financial research provider Alliance Bernstein, and since they provide annuities, which offer exponentially more attractive economics to the issuer when equity markets are performing well.

Within the consumer discretionary sector, the Pool owned Home Depot Inc. and DR Horton Inc., which both detracted from the Pool's performance during the quarter. After reporting weak same-store-sales during their third quarter earnings report, Home Depot sold off rather severely and the Pool was stopped out. As a homebuilder, DR Horton Inc. benefits from low interest rates, so as rates began to climb, the name sold-off and the Pool was stopped out of the position. Similarly, as rates increased throughout the quarter, rate sensitive names like Emera Inc. (EMA:TSX), a Canadian based utility company fell out of favour, so it was sold by the Pool.

Lookin Forward

With a backdrop of easier monetary policy, headway on U.S. China talks, better than expected GDP growth and the U.S. consumer strong with record low unemployment, the year finished on a positive note. With this, economically sensitive sectors have responded with sectors such as technology, industrials and financials outperforming defensive sectors. The U.S. housing sectors is strong with home sales up 30% over the year and outlook remains positive with low interest rates. Barometer portfolios are positioned for growth and benefitting from these outperforming sectors. With recession fears receding, 2020 has begun with good fundamentals.

Barometer Capital Management Inc. | 1 University Avenue, Suite 1800 | Toronto, Ontario | M5J 2P1 Telephone: 416-601-6888 Fax: 416-601-9744