

# Q3 report

The third quarter began with familiar themes from the previous months, with technology and consumer service sectors narrowly driving market returns. In fact, by September the 5 top-performing stocks in the S&P 500 had returned 59% while the remaining 495 stocks had returned only 1%.

For Barometer Pools, the more concentrated equity pools were able to capture a greater portion of this narrow market, while our more broad-based strategies felt the effects of an underlying market of weaker performers. The Income Strategy, which focuses on dividend and income-producing securities, continued to represent a relatively weak part of the market. Throughout the quarter we made some allocations to a select group of growth names to partially participate in a better area of the market.

As we entered the end of the quarter, markets did pull back as Covid numbers rose

globally, with leading sectors selling off. We have since seen some recovery, but market volatility remains higher as the market looks forward to the approaching U.S. election and hopes of a stimulus package to be passed by both U.S. houses.

In support of the market, the Fed continues to institute strong monetary support, with a low interest rate for the foreseeable future and little concern over inflation targets. Also, economic fundamentals continue to improve from the peak of the Covid crisis. The U.S. economy has seen improvement with unemployment numbers now at 8.8% decreasing from 13%, as well as strengthening

manufacturing numbers and increased consumer spending. Corporate earnings remain positive but not yet back to pre-pandemic levels. PMI numbers (Purchasing Manager Index) have improved globally with many economies trending above 50 – a sign of economic expansion. Barometer will remain vigilant as we move through the election and the fall.

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## Barometer Tactical Income Pool

The Barometer Tactical Income Pool (the “Pool”) entered the quarter with some exposure to information technology, communication services, and materials; to partly participate in leading sectors while lowering; exposure to dividend and income stocks – an underperforming part of the market.

Positions in these sectors exhibited strength, while holdings in energy and healthcare detracted from Pool returns. Within consumer discretionary, a tactical position was taken in Nike Inc. (NKE:NYSE) which performed exceptionally well.

Fundamental research and channel checks coupled with technical analysis look promising for Nike Inc.'s Q1 2021 earnings. The stock rallied approximately 15% into earnings and beat expectations, specifically on better than expected growth in Nike's U.S. operations. Holdings in discount retailers such as Dollar General Corp. (DG:NYSE) and Dollarama Inc.

(DOL:TSX) also performed well over the quarter as their business models tend to be more resilient during economic downturns. The energy sector lagged during the quarter on the back of heightened fears of a second wave of the coronavirus and its potential impact on oil demand. With October historically being a volatile month for equities, the Pool has raised cash levels and re-allocated cash towards more defensive sectors such as consumer staples.

## Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool (the “Pool”) entered the quarter with higher exposure to economically sensitive sectors such as financials and information technology, as these sectors, specifically mega-tech stocks, exhibited strength over the quarter. The Pool benefitted from exposure to utilities, industrials, real estate, and information technology as holdings within these sectors exhibited strong

performance during the quarter.

Conversely, holdings within communication services and healthcare sectors weighed on the Pool's returns. The Pool's exposure to corporate debt generated positive returns over the quarter, while exposure to government debt was a slight detractor to performance. Within utilities, positions in Boralex Inc. (BLX:TSX), Nextera Energy Inc. (NEE:NYSE) and Hydro One Ltd. (H:TSX), all performed well, generating returns between 16% and 23% during the quarter. In industrials, the Pool's position in Canadian Pacific Railways Ltd. (CP:TSX) performed exceptionally well as we have seen sequential progress in railroad volumes over the course of the quarter, as economic activity has rebounded from the April lows. The Pool's healthcare holdings were detractors to overall performance as investors feared a likely COVID-19 vaccination would not be ready as quickly as the market

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had initially anticipated. Exposure to information technology was reduced towards the end of the quarter and proceeds were re-allocated towards defensive sectors such as consumer staples as well as sectors that continue to show strength such as industrials.

## Barometer Equity Pool

The Barometer Equity Pool (the "Pool") entered the quarter fully invested as the equity market rally that began at the end of March continued through July and August. The Pool carried an overweight position in the information technology sector which was gradually reduced throughout the quarter from approximately 40% to 30%. As we entered September and equity markets began to correct, the portfolio raised cash. The Pool sold some technology and communications exposure and added exposure to the utility sector as a defensive measure. Despite the sell-off, at the end of the quarter, exposure to the

information technology sector contributed most positively to performance. As was seen during the second quarter, companies growing revenue at a rapid clip continued to be bid up as the scarcity of growth stories increased.

Enterprise software companies showed particular strength for The Pool, most notably Zoom Video Communications (ZM:NASDAQ) which continued its exceptional growth. The Pool also owned NVIDIA Corp. (NVDA:NASDAQ) throughout the quarter.

Against a backdrop of rapid growth in cloud computing capacity, the world's leading GPU manufacturer released their Ampere generation of chips which will further stretch their lead over competitors. The Pool's exposure to the consumer discretionary sector also made a strong positive contribution to performance as consumer spending habits remained notably resilient against an otherwise weak economic backdrop. Exposure to Nike Inc. (NKE:NYSE) contributed positively as the company benefitted from the better margins that come from

a larger mix of online sales. DraftKings Inc. (DKNG:NASDAQ) also contributed positively as the company's rapid share gains in U.S. online sports betting paid off as major sports leagues in the U.S. resumed play. Exposure to the health care sector made a net negative contribution to the Pool's performance during the quarter as did exposure to the materials sector. Gold miners like Great Bear Resources Ltd (GBR:CSE) and Yamana Gold Inc. (YRI:TSX) gave up much of July and August's gains in September and as a result, the Pool was stopped out of many gold positions.

## Barometer Long Short Pool

Barometer Long Short Pool  
The Barometer Long Short Pool (the "Pool") entered the third quarter fully invested with a notable overweight position in the materials sector with a specific focus on gold miners.

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Materials sector exposure was further increased in July before being trimmed throughout the rest of the quarter. Despite strong price action in gold during July and August, many of the gold mining stocks became decoupled from strength in the commodity price and thus, sold off. The net effect of materials sector exposure during the quarter detracted from performance. Within the health care sector, the Pool owned Well Health Technologies Corp. (WELL:TSX) throughout the quarter which made a strong positive contribution to performance. Well Health Technologies is an emerging Canadian provider of telehealth services and electronic medical records which is seeing strong adoption due to the current macro backdrop. The Pool benefitted from exposure to the information technology sector which grew throughout the quarter. Exposure to SiTime Corp. (SITM:NASDAQ) made a strong positive contribution to performance during the quarter as the company's revolutionary timing chip

solution sees continued adoption, including inside of the iPhone 12. The Pool took a position in Square Inc. (SQ:NYSE) which delivered a quarter of good performance driven by user growth in CashApp and GMV inflection in their seller ecosystem as economies re-open globally.

## Barometer Global Macro Pool

The Barometer Global Macro Pool (the "Pool") entered the quarter with substantial exposure to both U.S. and Canadian equities, predominantly in the information technology sector. Throughout the quarter, exposure to information technology was gradually taken down as commodity exposure was increased. The Pool's precious metals exposure remained between 20%-25% as exposure to other metals like copper was increased as evidence of a rebound in industrial production globally. Precious metals exposure contributed positively to performance during the quarter. Within the

technology sector, the Pool benefitted most positively from exposure to the ARK Innovation ETF (ARKK) which has a large EV component, and the iShares SPDR S&P Semiconductor ETF (XSD) as the semiconductor industry remained leadership throughout the quarter. In currency markets, the Pool entered the quarter with a short position in the U.S. dollar. This trade was closed out in July netting positive returns. In September, the Pool added a position in Japan due to constructive price action in Japanese markets which has contributed positively to the Pool's performance. As we look forward to the final quarter of the year, we will continue to monitor the portfolios closely as market digests a U.S. election, rising Covid cases and negotiations over a U.S. stimulus package. Fundamentals continue to improve, but short-term headline risk could create some short-term market volatility.

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## Looking Forward

As we look forward to the final quarter of the year, we will continue to monitor the portfolios closely as the market digests a U.S. election, rising Covid cases, and negotiations over a U.S. stimulus package. Fundamentals continue to improve, but short-term headline risk could create some short term market volatility.

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