

MARCH 2021

# Q1 report

During the first quarter of 2021, the market experienced the first meaningful sector rotation since the beginning of the pandemic. Throughout 2020, Covid-19 beneficiary stocks led markets as shifting consumption habits like remote work and a socially distant environment boosted returns.

However, as the economies began to open and vaccine rollouts accelerated, economically sensitive stocks began to lead. Supporting this rotation was a continued improvement in economic data such as better housing starts, improved employment numbers, and significant positive movement in the purchasing manager index showing more robust growth. In addition, a lack of supply, and a surge in demand have provided increased pricing power in many industries.

But even with this improved growth, the Federal Reserve remains very supportive from a

monetary policy standpoint while they observe and wait for a more fulsome recovery in employment. This has been to the benefit of the financial sector as banks benefit the most from a steepening yield curve.

Against this backdrop, Barometer Pools shifted exposures, most notably selling down technology - a leading sector in 2020 - and adding exposure to financials, industrials and consumer discretionary sectors. We are also reminded of the benefits of diversification, while more growth-oriented pools outperformed in 2020. This

year has seen the market favour Barometers Income & Balanced Portfolios as large dividend-paying stocks began to outperform.

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## Barometer Tactical Income Pool

The Barometer Tactical Income Pool entered the quarter with an overweight position in industrials, materials, and financials. These sectors benefitted from stronger economic data as investors became more confident in the “reopening/reflation” theme. After many quarters of market leadership, technology stocks remained weak and in turn, the pool decreased exposure. Exposure to the energy sector was increased over the quarter with energy stocks benefitting from resilient crude oil prices. With treasury yields rising sharply over the quarter, exposure to the financials sector was also increased. Not only should the sector, specifically banks, benefit from higher yields and a steeper yield curve, there also remains great potential for an improved capital return to shareholders once regulators remove restrictions on capital deployment for dividends and share buybacks, which were put in place during the pandemic.

Consumer discretionary, energy, financials and materials sectors all added to fund returns. Detracting from the performance were communication services and utilities. Examples of strong holdings over the quarter were General Motors Co. (GM:NYSE), Ford Motor Co. (F:NYSE) and BRP Inc. (DOO:TSX) appreciating by 36%, 37%, and 15%, respectively. Automotive industry sales units have taken a step closer to pre-pandemic levels while inventory at dealerships continues to be at historical lows. This sets up an interesting environment for automakers to see improved pricing power and expansion in margins. Positions within the utility sector weighed on pool returns as the sharp increase in treasury yields caused a sell-off in bond-proxy equities. Portfolio positioning entering Q2 2021 is overweight biased towards financials, energy, industrials and materials, while underweight communication services, consumer discretionary, consumer staples, healthcare, technology and utilities.

## Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool entered the quarter with an overweight position in energy, financials, industrials, materials and utilities while remaining underweight in communication services, consumer discretionary, consumer staples, healthcare and technology sectors. During the quarter, portfolios were adjusted as energy, financials, healthcare and real estate was increased while exposure in communication services, consumer discretionary, consumer staples, industrials, technology and utilities were reduced. The pool benefitted from exposure to consumer discretionary, energy, financials and materials, as these sectors exhibited strong performance during the quarter. Like the Income Pool, General Motors Co. (GM:NYSE) appreciated 36% during the quarter. Other strong performing positions were in financials. As an example, Ally Financial Inc. (ALLY:NYSE) performed

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strongly, appreciating by 25% during the quarter. ALLY offers automotive financial services to its clients and has benefitted from similar trends as the automakers. Entering Q2 2021, the pool maintains an overweight bias to energy, financials, materials, and real estate, while being underweight communication services, consumer discretionary, consumer staples, healthcare, industrials and technology sectors.

## Barometer Global Macro Pool

The Barometer Global Macro Pool delivered a strong quarter driven primarily by exposure to cyclically sensitive North American equities. The Pool entered the quarter with large exposure to equities and was early to rotate into cyclically sensitive reflation beneficiaries like banks and industrials. These overweight positions were reduced throughout the quarter and proceeds were invested most notably into

emerging markets. Exposure to Bitcoin made a strong positive contribution to performance during the quarter as cryptocurrencies generally acted well and the Pool's investment in the Canadian, publicly traded Bitcoin Fund roughly doubled. Over the course of the quarter, the Pool maintained large commodities exposure. Within the asset class, base metals exposure had the most positive contribution to the performance as copper acted well throughout the quarter. Uranium exposure, as well as agricultural commodities exposure also added to performance. Within commodities, precious metals exposure detracted slightly from performance as gold continued to trade poorly even as concerns about inflation were heightened. The Pool also notably benefitted from its short position in fixed income. The pool was short various types of fixed income exposures throughout the quarter and these short positions worked

well as the bond market sold off sharply.

## Barometer Equity Pool

The Barometer Tactical Equity Pool entered the quarter with an overweight position in the technology sector which had benefitted the pool over the past few quarters. This was reduced as the sector began to underperform but still detracted from quarterly performance. Financials sector exposure was increased as this sector became a market leader. Financials positions such as Regions Financial Corp. (RF:NYSE), a regional bank with a footprint in the southeastern United States contributed to performance. The communications sector was a significant contributor to the Pool's performance, in particular the company AcuityAds Holdings Inc. (AT:TSX) which continued to appreciate due to better than expected revenue growth, as travel and leisure industry spending began to rebound.

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## Barometer

### Long Short Pool

The Barometer Long Short Pool entered the quarter with an overweight position in the technology sector due to the sector's outperformance during 2020. Like the other Pools, technology was reduced throughout the quarter as new areas of leadership began to assert themselves and markets began to favour sectors benefitting from reflation.

The Long Short Pool's exposure to special purpose acquisition corporations hurt performance during the quarter. After an initial rally, they pulled back to issue price and have held up well at these prices.

The Pool built a position in the energy sector throughout the quarter, as rising crude prices driven by increased demand from the reopening global economy helped energy companies. At the end of the

first quarter of this year, the Pool's position in energy stocks represented 25% of the Pool's assets. Exposure to names like Crescent Point Energy Corp (CPG:TSX), Cardinal Energy Ltd. (CJ:TSX), and Crew Energy Inc. (CR:TSX) contributed positively to Pool performance.

### Looking forward

As we enter the 2nd quarter, economic recovery looks to continue supported by strengthening vaccine programs, reopening economies, and strengthening corporate results. As different market sectors take on market leadership qualities, Barometer will continue to adjust portfolios.

The logo for Barometer, featuring the word "barometer" in a lowercase, sans-serif font. A blue diagonal line is positioned above the letter 'o'.

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