

Q2 report

After a weak opening to the quarter, markets resumed their steady march higher for much of the second quarter. The level of concentration that has developed over the past few years in the U.S. remains top of mind. Many of the largest American companies remain staples in Barometer portfolios, as has been the case since early last year. Despite some narrowing in breadth, we continue to see ample investment opportunities across the U.S. and Canadian markets.

The Federal Reserve continued its strategy of using slightly hawkish language to temper expectations on the pace of rate cuts to come. Federal Reserve Open Markets Committee members were successful to this end, as rate cut expectations have come down substantially so far this year. As of the end of the second quarter, the market expects no rate cuts in calendar year 2024. This is in stark contrast to expectations at the beginning of the year when six rate cuts were expected. This is a net positive for markets as counter-intuitively, now that expectations have been tempered, the Federal Reserve is more likely to cut rates.

Inflation continued to moderate during the quarter. With consumer price index readings remaining in the mid 3% range and personal consumption expenditure core price index readings in the mid 2% range, we are nearing the point at which the Fed can declare victory in the fight against inflation.

The Bank of Canada delivered the first rate cut seen by a G-7 country in early June. This serves to take some pressure off of the Canadian economy and signals that the Bank of Canada is relatively happy with the level of inflation seen in Canada.

As we move forward into the

third quarter, Barometer remains positive on markets with the view that we are in a structural bull market. We will continue to seek exposure to stocks exhibiting leadership characteristics. Despite some narrowing in breadth coming into quarter end, the outlook remains bright for the back half of the year.

Barometer Tactical Equity Pool

The Barometer Tactical Equity Pool continued to benefit from exposure to the U.S. information technology during

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the quarter. The pool increased tech exposure from approximately 12.5% of pool assets to 17% as the quarter progressed. As has been the case for the last number of quarters, the pool's exposure to NVIDIA Corp. (NVDA) contributed most positively to the pool's performance, followed by Broadcom Corp. (AVGO). These positions continued to deliver excellent performance as investors demonstrated voracious appetite for any stocks with generative AI exposure. NVIDIA's explosive growth demonstrated both the strength of demand for generative AI hardware, but also a more robust supply picture as NVIDIA was able to rapidly scale production to meet demand. Broadcom Corp. remained the partner of choice for hyperscalers using custom chips to meet their compute needs and continued the integration of recently purchased VMware into the organization. The pool also owned Motorola Solutions (MSI) which continued to work well on the back of successful product launches in radio, bodycam, and growth in subscription revenue.

Health care exposure contributed positively to pool performance during the quarter as Eli Lilly & Co. (LLY) continued to benefit from the rollout of their GLP1 receptor agonist drugs Mounjaro and Zepbound. These drugs have seen huge demand globally as their efficaciousness has become unquestionable.

Exposure to the consumer discretionary sector contributed positively to pool performance led by Dollarama Inc (DOL). In Canada, consumers have chosen to trade down to discount stores like Dollarama as economic pressures mount.

The pool reduced exposure to the communications sector during the quarter through the sale of Disney (DIS). Disney shares reacted negatively to their earnings report delivered during the quarter which suggested worse than expected growth in their Parks segment. Better Parks performance was core to our thesis in owning the stock so we moved on.

The pool saw negative contribution to performance from exposure to the energy

sector as crude oil prices softened during the quarter. The pool's exposure to Valero Energy Corp. (VLO) and Canadian Natural Resources (CNQ) detracted from performance.

Barometer Tactical Income Pool

The Barometer Tactical Income Pool's exposure to the information technology sector made a significantly positive contribution to return during the quarter. The pool continued to benefit from ownership of companies exposed to generative artificial intelligence proliferation. NVIDIA Corp. (NVDA), Broadcom Corp. (AVGO), and Microsoft Corp. (MSFT) all made positive contributions to pool performance. NVIDIA remains the supplier of choice for graphics processing units (GPUs) used for AI development and they have seen explosive growth over the last year. For companies that choose to develop their own custom chips in order to develop AI, Broadcom remains the most trusted partner.

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The pool's consumer staples sector exposure contributed positively to performance as names like Costco Wholesale Corp. (COST) and Loblaw Cos Ltd. (L) continued to execute well and expand margins despite inflationary pressures. Costco delivered strong same-store-sales growth during the quarter and benefitted from consumers looking for good value. Loblaw Cos Ltd. also exhibited resilient same-store-sales growth and continued strength in their Shopper's Drug Mart business.

The pool benefitted from its exposure to the industrial sector throughout the quarter, specifically through ownership of Thomson Reuters Corp. (TRI) and Element Fleet Management (EFN). Thomson Reuters has emerged as an AI darling in Canada as the company continues to seek ways to integrate AI product offerings to help their clients drive efficiencies. Element Fleet Management saw good customer wins during the quarter coming from self-managed fleets. The company continues to grow their service business which is generating good returns as the offering is

being rolled out to existing customers.

Energy sector exposure contributed negatively to pool performance as weakness in crude pricing driven by weaker demand against stronger supply put pressure on shares on Canadian Natural Resources (CNQ) and ConocoPhillips (COP), which was owned by the pool.

Exposure to the consumer discretionary sector made a negative contribution to performance and was subsequently reduced from approximately 3% of pool assets to 0% as the pool's position in Restaurant Brands International Inc. (QSR) was sold after the stock broke down technically.

Barometer Tactical Balanced Pool

Despite the sector itself being relatively weak, the Barometer Tactical Balanced Pool benefitted most positively from exposure to the consumer staples sector. The pool's position in Costco Wholesale Corp. (COST) continued to work well during

the quarter as North American consumers demonstrated increased frugality against some increasing economic pressures and began to hunt for bargains. Costco delivered very strong same-store-sales growth during the quarter and exhibited strong growth in their membership base. Loblaw Cos Ltd. (L) also exhibited resilient same-store-sales growth and continued strength in their Shopper's Drug Mart business.

Industrials sector exposure contributed positively during the quarter driven primarily by strength in Thomson Reuters (TRI) shares. Thomson Reuters remains a great way to play generative AI exposure in Canada as the company seeks to integrate AI into their legal & tax accounting business. Eaton Corp (ETN) also performed well during the quarter as the company saw strength across most of their diverse business lines, specifically their business selling electrical transmission components. The vast amount of computation required to power AI development has

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provided a tailwind to companies like Eaton, selling equipment into power grids.

Exposure to the information technology sector was trimmed slightly as the quarter progressed, from only approximately 9% of pool assets to 7%. Despite carrying relatively small information technology exposure, the pool owned the right names and the sector made a strong positive contribution to performance during the quarter. The pool owned Broadcom Corp. (AVGO) and Microsoft Corp (MSFT) throughout the quarter. Broadcom remains the partner of choice for companies seeking to do generative AI development using custom chips. Microsoft Corp. continues to benefit from the brilliant deal done to secure permanent access to OpenAI generative AI models, as well as to secure exclusivity of OpenAI workload on Microsoft's cloud.

Materials sector exposure did contribute negatively to pool performance during the quarter and was subsequently reduced from approximately

13% to 11% of pool assets. Shares in Vulcan Materials (VMC) did begin to underperform as aggregate volume data came in lower than expected despite Vulcan taking price. Rio Tinto PLC (RIO) contributed negatively to performance due to some weakness in iron ore pricing during the quarter.

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Barometer Long Short Pool

The Barometer Long Short Pool increased materials sector exposure as the quarter progressed, which made a net positive impact to pool returns as base and precious metals prices were generally strong. Materials sector exposure was taken from approximately 10.5% of pool assets to 16%. The pool's exposure to gold contributed positively through ownership of Kinross Gold

Corp (K) and Alamos Gold Inc. (AGI) benefitted from better gold prices. Copper exposure through ownership of Capstone Copper Corp (CS) also contributed positively. Capstone was owned throughout the quarter.

The pool's exposure to the consumer discretionary sector contributed positively to performance driven primarily by a short position held throughout the quarter in Spin Master Corp. (TOY). Spin Master continues to exhibit weakness as the company's margin profile became more volatile as a result of more pronounced seasonality. Ownership of Amazon.com Inc. (AMZN), which was held throughout the quarter, also contributed positively.

The pool's real estate exposure contributed most negatively to performance. The pool came into the quarter with a short position in Dream Office REIT (D/U) which rallied sharply at the beginning of April so the short was quickly covered.

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The pool also saw its energy sector exposure contribute negatively to performance during the quarter as crude oil prices declined, weighing on stocks. The pool's positions in Veren Inc. (VRN) and Athabasca Oil Corp. (ATH) contributed most negatively.

Barometer Global

Macro Pool

The Barometer Global Macro Pool saw precious metals exposure contribute most positively to performance during the quarter as gold and silver prices strengthened as the quarter progressed. The pool held the Sprott Physical Silver Trust (PSLV), the Vaneck Junior Gold Miners ETF (GDXJ), and the Vaneck Gold Miners ETF (GDX) throughout the quarter.

The pool also saw its base metals exposure work well as copper pricing firmed. The pool owned the Global X Copper Miners ETF (COPX) throughout the quarter and shares moved steadily higher.

The pool's exposure to emerging markets made a positive contribution to performance driven by strength from India. India remains a key reshoring beneficiary as companies globally seek to shift production out of China in order to derisk their supply chains.

The pool saw some of its North American equity exposures contribute negatively. Namely, the pool held a short position briefly in the Invesco Solar ETF (TAN) which rallied, causing negative performance for the pool. The pool also held shares in the iShares U.S. Home Construction ETF which delivered negative performance as mortgage rates remain persistently high and lumber pricing firmed throughout the quarter.

While the pool's cryptocurrency exposure has made a strong positive contribution to pool performance on a year-to-date basis, crypto exposure

contributed negatively during the quarter and exposure was reduced as both bitcoin and ether price came under pressure.

The pool's short position in the U.S. dollar, which was held throughout the quarter made a negative contribution to pool returns as on a relative basis, the U.S. economy continued to outperform the rest of the developed world.

Looking Forward

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

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