

# Q3 report

After a strong year in equity markets, the third quarter closed out with some market weakness, as global economies increasingly contended with supply and demand dislocations as well as uncertainty over fiscal and monetary policies. Increased probability that the Federal Reserve would begin to taper asset purchases this year caused yields to move higher in August and September, this created market volatility and changes in sector leadership.

With market volatility and changes in sector leadership, Barometer shifted portfolios and trimmed positions that sold off. After many quarters of a strong technology sector, higher rates provided the catalyst for a tech pull back while financials gained strength in a more positive yield environment. In addition, as energy supply remained constrained and demand picked up, rising crude prices provided strong performance

for energy stocks, and Barometer portfolios were adjusted accordingly. Another major theme that the market is contending with is inflation, leading to the question, is higher inflation transitory as supply chains rebuild – or is something more troubling happening?

As we head into the fourth quarter, Barometer will monitor these issues and continue to adjust the

portfolios accordingly. Our recent shifts in financials and energy have provided positive outcomes as we will continue to hold on to these positions until something changes.

## Barometer Tactical Income Pool

The Barometer Tactical Income Pool entered the third quarter with an overweight bias towards energy and financials as the macro environment for these sectors remained robust. Strong oil and gas prices provided a tailwind to energy stocks while a rise in 10-year yields provided strength to financials. Through the same period, the pool was underweight in communication services, consumer discretionary, health care and information technology. As the quarter progressed, a decline in oil and gas stocks in August triggered selling for many energy positions and proceeds were redeployed into financials, communication services and information technology. Over the course of the quarter, consumer staples, financials, industrials, information technology and real estate were the strongest performing sectors within the pool, while

holdings within healthcare and materials weighed on returns. Within financials, Blackstone Inc.(BX:NYSE) and Brookfield Asset Management Inc. (BAM.A:TSX) generated strong returns for the pool, appreciating by 23% and 14%, respectively. Both Blackstone and Brookfield benefitted from a strong backdrop in raising capital for future funds and limited partnerships. As such, the recurring fee-related earnings generated by both companies should continue to rise and provide a strong boost to both companies' future earnings. The pool's positions in Nucor Corp.(NUE:NYSE) and Stelco Holdings Inc.(STLC:TSX) detracted from returns as a fall in steel pricing caused the stocks to depreciate. Entering Q4 2021, the pool maintains an overweight bias to financials, real estate, energy, and utilities while being underweight in communication services, consumer discretionary, consumer staples, health care, industrials and information technology.

## Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool entered the quarter with an overweight bias towards energy, financials, real estate and utilities, while being underweight communication services, consumer discretionary, consumer staples, health care and industrials. During the quarter, exposure towards energy, financials, real estate and consumer discretionary was reduced as the summer months posed challenges to the “re-opening/reflation” trade. The sell-off in crude prices and subsequently oil and gas stocks in August triggered sell levels for many energy positions in the portfolio. Consequently, exposure to communication services, information technology, consumer staples, real estate and utilities were increased. The pool benefitted from its exposure to

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information technology, financials, consumer staples and real estate, while energy and materials weighed on returns. Within technology, shares of Nuvei Corp.(NVEI:TSX) appreciated by 43% over the quarter, attributing strong positive performance to pool returns. Nuvei is a payment processing company that focuses on high-growth verticals such as e-commerce, online gaming in regulated markets, and capabilities to facilitate cryptocurrency transactions. The company's strong organic growth profile, coupled with strategic acquisitions has resulted in a strong rally of the company's common stock. Entering Q4 2021, the pool maintains an overweight bias to energy, financials, real estate and utilities, while being underweight communication services, consumer discretionary, health care, industrials and information technology.

## Barometer Equity Pool

The Barometer Equity Pool entered the quarter with concentrated exposures in the energy, financials, and technology sectors. After delivering a strong performance during much of the second quarter, the energy sector underperformed the broader market for much of the third quarter.

Consequently, the pool's energy exposure was reduced throughout the quarter and proceeds from the sale of energy stocks funded purchases of technology stocks. The pool's energy exposure was taken from approximately 39% of pool assets to 13% during the quarter, while technology exposure was taken from approximately 21% of pool assets to 37%. The remaining proceeds funded purchases of stocks within the industrials and healthcare sectors.

Energy exposure in the pool contributed negatively to performance. Despite rallying in September, crude oil prices sold off sharply in July and August. Exposure to Paramount Resources Ltd.(POU:TSX), Arc Resources Ltd.(ARX:TSX), Peyto Exploration & Development Corp.(PEY:TSX) and Precision Drilling Corp.(PD:TSX) all contributed negatively and were sold out of the pool.

Technology exposure in the pool contributed positively to performance for the majority of the quarter. Many of the names owned by the pool throughout the quarter including Nuvei Corp.(NVEI:TSX) and Lightspeed Commerce Inc. (LSPD:TSX) delivered strong performances despite retracing at quarter-end with general market weakness. Softchoice Corp.(SFTC:TSX) and Magnet Forensics Inc. (MAGT:TSX) performed similarly, making a sharply positive net contribution to performance despite weakness in late September.

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Exposure to the industrials sector contributed positively to performance during the quarter. Within the sector, Bombardier Inc.(BBD.B:TSX) benefitted from a robust business jet market and continued to build their backlog with order momentum picking up. TFI International Inc.(TFII:TSX) benefitted from a tight trucking market that led to better pricing, and better performance than expected from their acquisition of UPS Freight.

## Barometer Long Short Pool

The Barometer Long Short Pool entered the quarter with a large overweight position in the energy sector, which was sold down throughout the quarter as crude oil prices softened during July and August. Exposure to the sector was taken from approximately 55% of pool assets, to approximately 19% by the end of the quarter. Exposure to

Paramount Resources Ltd.(POU:TSX), Arc Resources Ltd.(ARX:TSX), Peyto Exploration & Development Corp.(PEY:TSX) and Crew Energy Corp.(CR:TSX) all contributed negatively as crude oil prices rolled over and were sold out of the pool.

Proceeds from the sale of energy stocks were largely invested in the industrials sector. Exposure to the industrials sector had a positive contribution to pool performance during the quarter. Most notably, the pool had a large position in Bombardier Inc. (BBD.B:TSX) which benefited from a robust business jet market and continued to build their backlog with order momentum picking up.

Technology sector exposure was increased throughout the quarter, increasing from approximately 24% to 30%. Despite weakness from many of the tech names during the last two weeks of September,

technology exposure provided a strong net positive contribution to pool performance. Positions in Magnet Forensics Inc.(MAGT:TSX), Nuvei Corp.(NVEI:TSX), and Softchoice Corp.(SFTC:TSX) all made notably strong contributions.

Materials sector exposure was reduced throughout the quarter and contributed negatively to pool performance.

## Barometer Global Macro Pool

During the third quarter the Barometer Global Macro Pool increased exposure to North American equities, specifically to the financials and technology sectors. North American equity exposure was taken from approximately 32% of pool assets to 65%. The pool benefited from increased exposure to U.S. financials as yields rallied sharply during

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September so shares in both the U.S. bank and U.S. regional bank ETFs outperformed. Shares in the U.S. brokers and asset managers ETF outperformed as well and made a positive contribution to pool performance during the quarter.

Commodities exposure remained elevated throughout the quarter. This contributed negatively to pool performance, as heightened concern regarding inflationary pressures failed to stimulate movement in the price of gold and silver. The pool's copper exposure weakened throughout the quarter as global economic growth outlooks broadly softened. Despite a sharp rally in uranium prices late in September, exposure to the uranium ETF made a net negative contribution to pool performance.

## Looking Forward

As we move through the quarter Barometer will monitor the various concerns as always, however, many are likely to be resolved over the next couple of quarters. Rising demand, ample liquidity and post-consolidation, more cautious

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