SEPTEMBER 2022

Q3 report

During the quarter, central banks in the developed world continued the fight against inflation by tightening monetary policy. Seemingly undeterred by rising recession risk, rates continued to rise at the expense of asset prices globally. Few sectors were spared by tightening and leadership was exceedingly hard to find. Even the energy sector which had been the standout leader this year stumbled for part of the quarter as crude oil prices sold off on concerns of demand destruction brought about by weakening economies. Barometer portfolios carried large cash weights for much of the quarter. Equity exposure favoured traditionally defensive sectors like health care, utilities, and staples.

As we enter the fourth quarter, global central banks remain committed to lowering the inflation rate. While consumers remain strong for now, we are watching for signs of deterioration in labour markets as this should give an indication of when central banks will begin to capitulate. Inflation rates in the U.S. and Canada remain well above their target rates of 2% per year and the fight against inflation is top of mind for market participants because it dictates central bank posture.

Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool entered the quarter with an overweight bias towards consumer staples, energy, materials, and utilities, while being underweight in communication services, consumer discretionary, real estate, health care, industrials, financials, and information technology. Fixed income made up approximately 38% of the Pool's exposure. However, markets continued to decline over the quarter as global central banks' commitment to raising interest rates to combat

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inflation weighed on equity markets. As a result, exposure towards energy, materials and technology was reduced, while exposure to financials, healthcare, industrials, and utilities was increased, giving the Pool a defensive posture through this current macro backdrop and hawkish commentary from central banks.

Quarterly results reflected gains from consumer staples and healthcare, while industrials and materials weighed on Pool returns. Within consumer staples, the Pool's position in The Hershey Company appreciated by approximately 9% over the quarter as the company produced a strong second quarter earnings result by beating consensus earnings estimates by 7%. Within healthcare, the shares of Eli Lily & Co. appreciated by 7% in Q2 as a competitor drug to Lily's Alzheimer's drug produced positive phase 3 trial data and had positive read-throughs for Lily's tirzepatide drug. The Pool's position in Canadian Pacific Railway Ltd. weighed on returns as the stock depreciated by approximately 10% during the quarter as fears of a recession and slow-down in freight caused a pull back in the stock price.

Entering Q4 2022, the Pool maintains an overweight bias to consumer staples, energy, industrials, and utilities, while being underweight in communication services, consumer discretionary, financials, healthcare, information technology and real estate. Approximately 30% of the Pool is invested in fixed income securities.

Barometer Tactical Income Pool

The Barometer Tactical Income Pool entered the quarter with approximately 30% of Pool assets in cash and short-term government debt to help cushion volatility caused by weak equity markets. The Pool's cash weighting remained at this level throughout the quarter.

In addition, the Pool built exposure to the Industrials sector, adding exposure to the defense and waste management Inc.. The defense industry continues to benefit from a structural shift in defense spending, especially by member nations of the European Union. The waste management industry acts as an inflation hedge with contracts pegged to inflation.

Results over the quarter were helped by exposure to the Consumer discretionary sector specifically Amazon.com Inc which rallied sharply as the company reported better than expected numbers.

The energy sector exposure contributed negatively to performance during the quarter as the correction in crude oil and natural gas prices had an outsized effect on Imperial Oil Ltd., Canadian Natural Resources Ltd., and Cenovus Energy Inc. As a result, removed these positions with energy exposure reduced from 23% to approximately 11%.

Barometer Tactical Equity Pool

The Barometer Equity Pool entered the third quarter defensively positioned. The Pool's cash level remained elevated throughout the quarter with an allocation to cash and short-term debt increasing from 20% to approximately 30% as the quarter progressed.
The Pool reduced exposure to the energy sector from approximately 21% of Pool assets to 9%, as the energy sector declined. Despite weaker performance late in the quarter, energy sector exposure had a net positive impact to Pool performance as stocks like ConocoPhillips and Tourmaline Oil Corp. delivered strong performance due to improved long-term outlook for energy prices.

The health care sector exposure contributed most positively to performance during the quarter with exposure to Vertex Pharmaceuticals Inc., Eli Lilly & Co., and UnitedHealth Group. In addition, Eli Lilly & Co. continued to benefit from enthusiasm surrounding their drug tirzepatide, which shows promise in treating obesity. Health care is considered a defensive equity allocation as revenues of tend to be uncorrelated to the broader economy.

The Pool's exposures in the communications and consumer staples sectors had negative contributions to Pool performance during the quarter. Communications exposure was reduced from 10% to 6% of Pool assets.

Barometer Global Macro Pool

The Barometer Global Macro Pool was active during the quarter given the high degree of macro volatility seen globally. The Pool actively traded in oil and natural gas throughout the quarter which contributed to performance. The Pool had a short bias in oil and a long bias in gas.
Throughout the quarter, the Pool built short positions in European equity ETFs including iShares MSCI Eurozone ETF, iShares MSCI Germany ETF and iShares Europe ETF. All three positions contributed positively to performance as European equity markets struggled with a high degree of geopolitical risk, inflation, and sharply rising energy costs. The Pool also held a position in Japanese equity markets through the WisdomTree Japan Hedged Equity Fund. This position also contributed positively to performance as Japanese markets are considered a defensive trade and tend to outperform during periods of volatility.

A long position in Chinese equity markets which was gradually sold down contributed negatively to performance as well as a short position in the U.S. contributed negatively

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Barometer Long/Short Pool

The Barometer Long/Short Pool entered the quarter with an overweight bias to consumer staples, energy and utilities, while being underweight in communication services, consumer discretionary, financials, healthcare, industrials, information technology, materials and real estate. As equity market conditions continued to deteriorate, the Pool remained defensively positioned while raising cash levels as stop losses on portfolio positions were encroached. During the quarter, many of the Pool's positions were exited and cash was invested in short-term treasuries. Tactical short positions were also executed in sectors such as information technology, consumer discretionary, communication services and materials.

Over the course of the quarter, the Pool benefitted from various short positions within consumer discretionary, communication services, information technology and materials

The Pool's energy and industrial holdings were the largest detractor to returns as fears of a potential recession caused investors to take profits within these sectors. Although fundamentals of the oil and gas industry continue to screen favourably, the Pool has exited majority of the positions. A similar dynamic caused the Pool to exit positions in industrial companies such as ATS Automation and Shoals Technology group. We continue to monitor these positions for an opportunity to re-enter when the market is on more stable footing. In the near-term, protecting investor capital is the top priority.

Entering Q4 2022, the Pool is defensively positioned with the majority of assets in cash or short-term treasuries, as well as tactical short positions.

Conclusion

As we look forward, we will look to corporate earnings to hold, for inflation rates to peak, and most of all, for the central banks to pivot from their aggressive tightening stance. With our strong cash positions, we are in a position to continue to defend or be able to deploy cash when leadership begins to emerge.