

# Q3 report

Easing global monetary policy was top of mind throughout the quarter as the Bank of Canada moved in early June to lower rates. While the Federal Reserve Open Markets Committee declined to cut rates during their July meeting, they met market expectations with a 50-basis point cut in September which was positively perceived by equity markets. It seems increasingly likely that the Fed will be able to deliver a soft landing, bringing down inflation to a reasonable level while maintaining a robust labour market.

Across the firm, exposure to the technology sector was reduced throughout the quarter as profits were taken and the proceeds invested with an eye on diversification as the market broadened from narrow leadership. Precious metals performed very well during the quarter as central bank buying provided a consistent bid for gold. Allocation to gold and gold miners were notably increased during the quarter. Canadian banks generally outperformed U.S. banks during the quarter as Canada moved first to ease monetary policy and stimulate the economy. Canadian bank

exposure was taken higher as the quarter progressed. Canadian energy names also starkly outperformed U.S. peers as U.S. energy struggled to catch a bid while the Canadian names remained in favour due to their capital return profiles.

Artificial intelligence remained a focus during the quarter on the back of continued voracious demand by large tech companies for GPUs and datacenter capacity. While the firm's position in NVIDIA Corp. (NVDA) was sold during the quarter as the technical picture for the stock relatively

weakened, we remain bullish on artificial intelligence proliferation as a theme. Investor focus has gradually evolved from the question of who will supply the GPUs to a broader concern over who will provide the infrastructure and energy required to support the vast expansion of datacenter capacity. Through this lens, we have stronger conviction in some positions like BWX Technologies Inc. (BWXT), Southern Company (SO), NextEra Energy Inc. (NEE) – all leaders in nuclear. As well as

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Broadcom Inc. (AVGO) that continues to provide the networking infrastructure required for datacenter buildout and is a crucial partner of hyperscale cloud service providers as they build custom chips for use in high performance computing and large language model training and inference.

As we move into the final quarter of the year, with a pivotal U.S. election on the horizon, our outlook on markets remains optimistic. Global equity markets closed the third quarter on solid ground, supported by broad-based strength, and appear well-positioned for further gains in the months ahead. Regardless of the election outcome, expansionary fiscal policy is expected, which historically bodes well for equities. Combined with easing financial conditions, this environment should create a favorable backdrop for continued equity market strength.

## **Barometer Tactical Income Pool**

During the third quarter, the Barometer Tactical Income

Pool benefitted most positively from its exposure to the financials sector and it remained the pool's largest exposure on a sector basis. Canadian bank exposure continued to work well, notably outperforming U.S. peers. Canadian Imperial Bank of Commerce (CIBC) made a strong, positive contribution to pool returns as their domestically focused personal and commercial banking businesses outperformed the more internationally exposed businesses of peers. The bank's Canadian housing market exposure saw some pressure relieved as interest rates came down during the quarter. Insurance exposure worked well for the pool during the quarter as the pool's position in Progressive Corp. (PGR) continued to deliver strong returns. Progressive has been standout leadership in the US insurance industry as the company's price-taking has done nothing to deter strong policy count growth.

The pool's energy exposure worked well during the quarter, specifically the pool's exposure to pipelines. A capital-intensive industry,

pipeline stocks got a lift as interest rates came down. The pool's exposure to TC Energy (TRP) specifically worked well as the company divested of some non-core assets to further reduce their debt load.

Industrial exposure made a positive contribution to pool performance during the quarter as GE Aerospace (GE) continued to benefit from robust demand for aircraft engine servicing and maintenance as aircraft owners are keeping planes in service for longer due to production delays. This business is a higher margin than engine sales and with airplane suppliers facing continued production issues, it should continue to grow. Element Fleet Management (EFN) continued to benefit from an increasingly visible backlog and strong earnings momentum as companies clearly see the benefits associated with outsourcing their vehicle fleets.

The pool's exposure to the utilities sector made a positive contribution as NextEra Energy

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Inc. (NEE) benefitted from its status as a large operator of nuclear reactors. Late in the quarter, Microsoft's agreement with Constellation Energy to restart a previously shuttered nuclear reactor to support Microsoft's datacenter power consumption. This highlights the value of nuclear energy as datacenter power consumption across North America ramps higher. Nuclear provides consistent baseload, which is perfectly suited for use by datacenters, and emits no carbon which aligns with many of the environmental goals set by large datacenter owners and users. As interest rates came down throughout the quarter, so did NextEra's cost of capital which helped shares as well.

The pool's exposure to technology made a net negative contribution to performance during the quarter. The pool sold NVIDIA Corp. (NVDA) in August, as the technical picture weakened. This, coupled with reported delays in next-generation datacenter GPU shipments made shares less compelling to own ahead of the company's second quarter earnings

report. Following the report, investor fears were belayed, and the company's growth trajectory appears to remain on course despite these delays as GPU demand remains voracious. Qualcomm Inc. (QCOM) shares sold off following a sharp rally in May and the pool sold its position early in the quarter. Qualcomm's next generation, Arm-based CPU will be included in most of Microsoft's AI laptops, which are projected to be a meaningful slice of the PC market over the next few years, but in the near term, persistent PC and smartphone weakness weighed on shares.

### **Barometer Tactical Equity Pool**

In the third quarter, the Barometer Tactical Equity Pool saw the most positive impact from its exposure to the financials sector, which remained the largest sector allocation within the pool. Canadian banks, particularly, performed well, significantly outpacing their U.S. counterparts. Canadian Imperial Bank of Commerce (CIBC) made a notable contribution to the pool's

returns, as its domestically focused personal and commercial banking operations outperformed the internationally exposed businesses of its peers. Additionally, pressure on the bank's exposure to the Canadian housing market eased with the decline in interest rates during the quarter. The pool's insurance holdings also performed well, with Progressive Corp.(PGR) continuing to deliver strong returns. Progressive has emerged as a leader in the U.S. insurance industry, with its pricing strategies not hindering robust growth in policy count growth.

Industrials sector exposure contributed positively to performance during the quarter due to strong performance from aircraft parts supplier Howmet Aerospace Inc. (HWM) benefitting from a solid demand environment. BWX Technologies Inc. (BWXT) also made a notably positive contribution as investor enthusiasm around the

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potential for innovation in nuclear technologies buoyed shares in related industries. BWX Technologies is the leader in small, modular reactor technology having supplied the power unit in every nuclear-powered ship ever operated by the U.S. Navy. BWX is working to bring their expertise to power grids in Ontario with two separate pilot projects testing a SMR offering.

Materials sector exposure, specifically gold exposure contributed positively to pool performance during the quarter. The pool owned Agnico Eagle Mining Ltd. (AEM) and Kinross Gold Corp (K) both delivered strong returns as the price of gold surged during the quarter.

The pool's energy exposure made a net negative contribution to performance during the quarter. Cameco Corp. (CCO) was sold out of the portfolio after it exhibited weakness following a selloff in spot uranium. Valero Energy Corp. (VLO) struggled to outperform softness in crude price and was also sold from the portfolio.

The pool's position in Belling Brands (BRBR), a consumer staples darling was sold after a technical break following moderating growth.

### **Barometer Tactical Balanced Pool**

The pool's exposure to the financials sector contributed positively to performance during the quarter and subsequently remained the largest exposure on a sector basis. Canadian bank exposure worked very well for the pool driven in part by ownership of Canadian Imperial Bank of Commerce (CIBC). CIBC's domestically focused personal and commercial banking operations outperformed the internationally exposed businesses of its peers. Additionally, pressure on the bank's exposure to the Canadian housing market eased with the decline in interest rates during the quarter. Insurance industry exposure worked well also, with notably strong contributions from Manulife Financial Corp. (MFC) and Fairfax Financial Holdings Inc. (FFH). Manulife highlighted

continuing momentum in their core insurance business at an investor day in July that was positively perceived. Fairfax continues to see strong results in their insurance business even while being more selective in writing new business. The company's investment returns have also been stronger than management expectations resulting in large buybacks that should persist in size for the rest of the year.

The pool's materials sector exposure made a positive contribution to performance during the quarter. Ownership of Agnico Eagle Mining (AEM) made a notably positive contribution as the price of gold rallied throughout the quarter. Fixed income exposure helped performance during the quarter as easier monetary policy in the U.S. and Canada helped rates move steadily lower. The pool owned bonds issued by Bell Canada and Quebecor, delivered a strong move higher in price as a result.

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On a sector basis, energy was the only negative contributor as the price of crude weakened as the quarter progressed. Exposure to Arc Resources Ltd. (ARX) and Canadian Natural Resources Ltd (CNQ) made a negative contribution to pool performance.

## Barometer Global Macro Pool

The Barometer Global Macro Pool carried a substantial weight in commodities throughout the quarter, specifically precious metals. As the price of gold and silver rallied sharply, this exposure made a notably positive contribution to return. The pool owned positions in the Sprott Physical Gold Trust (PHYS) and the Sprott Physical Silver Trust (PSLV), as well as the VanEck Gold Miners ETF (GDX) and the VanEck Junior Gold Miners ETF (GDXJ), that all delivered strong performance during the quarter.

Copper exposure also made a notably positive contribution

to pool return as the massive stimulus programs announced in China near the end of the quarter put a bow on solid returns for the Global X Copper Miners ETF (COPX).

Exposure to the Canadian market made a positive contribution to return during the quarter as Canadian equity markets starkly outperformed U.S. equity markets. The pool owned the iShares S&P/TSX 60 Index ETF (XIU).

In emerging markets, notably, the pool owned the Global X MSCI Argentina ETF which delivered strong performance on the back of solid Argentine equity market performance.

The pool carried a short position in fixed income for much of the quarter which did make a negative contribution to return as interest rates came down during the quarter.

The pool did periodically hold short positions in technology and large-cap U.S. equities through selling the iShares

Semiconductor ETF (SOXX) and the Ark Innovation ETF (ARKK), as well as the Invesco QQQ Trust (QQQ) and the SPDR S&P 500 ETF Trust (SPY).

## Looking Forward

As we move into the final quarter of the year, with a pivotal U.S. election on the horizon, our outlook on markets remains optimistic. Global equity markets closed the third quarter on solid ground, supported by broad-based strength, and appear well-positioned for further gains in the months ahead. Regardless of the election outcome, expansionary fiscal policy is expected, which historically bodes well for equities. Combined with easing financial conditions, this environment should create a favorable backdrop for continued equity market strength.

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