DECEMBER 2021

Q4 report

During the fourth quarter, we saw some important thematic shifts as the Federal Reserve began to indicate that they were planning to reduce the level of stimulus being provided to markets. After they changed their communicated stance on inflation from a view that current inflation is transitory to a view that inflation is more durable, the Fed signaled a possible three rate hikes of 25 basis point rate hike for 2022.

As market participants began to digest this hawkish shift as well as the prospect of higher interest rates, the bond market sold off and investors rotated out of long-duration, high-multiple stocks into shorter duration companies with attractive cash-flow profiles. Barometer adjusted portfolios accordingly and by the end of the year had almost completely sold many of the growth stocks which contributed to performance through much of 2020 and into 2021. Proceeds were invested in shorter duration stocks sensitive to higher rates, many of which were in the financials, materials, and energy sectors.

We expect these thematic shifts to continue into 2022 as higher rates make lofty valuations tough to justify and dividend growth stocks assume market leadership as usually happens during rising-rate environments.

If we examine the full market cycle through covid, Barometer Pools have performed well, however, performance can come in bunches and different pools can perform differently at different times. For example, our strongest performing Pools in 2020, the Equity and Long Short Mandates, relatively underperformed in 2021. In contrast, the Income and Balanced Mandates performed better in the past year. As we discussed in a commentary a year ago, our more focused equity mandates benefited in 2020 from a higher-tech weighting, while this past year pools with a broader diversified portfolio which muted performance in 2020 helped this year. Simply put, over the 2-year period the pools did well, but at different times.

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Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool entered the quarter with an overweight to energy, financials, real estate and utilities, while being underweight in communication services, consumer discretionary, consumer staples, health care and industrials. During the quarter, exposure towards energy, financials and materials were increased as these sectors continued to benefit from a reflationary environment. However, rising bond yields and the prospect of higher interest were not positive for long- duration assets, most specifically, higher multiple lower earnings technology stocks, and thus were reduced significantly.

The pool did benefit from its exposure to select remaining technology holdings, as well as real estate, consumer staples and financial holdings. Within technology, the positions in Apple Inc. and Microsoft Corporation appreciated by 25% and 19%, respectively, with both companies continuing to execute well and posting strong quarterly results. Within the consumer staples sector, Costco Wholesale Corp. and Loblaw Companies Ltd. also generated strong returns, appreciating by 26% and 20% in the quarter, respectively. Both grocers continue to exhibit strong same-store-sales growth and are benefitting from food inflation.

Barometer Tactical Income Pool

The Barometer Tactical Income Pool entered the quarter with an overweight position in energy, real estate and financials while being underweight in consumer discretionary, health care and information technology sectors. The macro-environment for both energy and financials continued to look robust as reflationary trends elevated oil and gas prices and created a more beneficial yield spread for banks. However, similar to the Balanced Pool, rising bond yields and the prospect of higher interest rates are not positive for long-duration assets, specifically, higher multiple lower earnings technology stocks which were reduced. The proceeds were put towards materials and consumer discretionary sectors to the benefit of the portfolio performance.
In addition, the pool benefitted from exposure to financials, high-earning technology companies and energy. Within financials, we witnessed strong performance from Canadian bank stocks on the back of strong fourth-quarter earnings. The pool's holdings in Bank of Montreal, Bank of Nova Scotia and Toronto-Dominion Bank, appreciated by 8.6%, 10.2% and 11%, respectively. The Canadian bank reporting season portrayed an environment of good loan growth and strong credit quality – this, coupled with the bank's strong capital positions presents a good environment for share buybacks and dividend increases. As mentioned, select technology

stocks performed well such as Broadcom Inc. and Nvidia Corporation which appreciated by 28% and 31%, respectively. Both companies continue to see strong demand in their respective end markets, with Nvidia continuing to see strong demand from data centers and Broadcom benefitting from early iPhone sales data points. The pool's holdings in utilities detracted from returns as positions in Capital Power Corp. and TransAlta Corporation depreciated. The decline in utilities stocks can be attributed to a rise in interest rates.

Barometer Global Macro Pool

The Barometer Global Macro Pool entered the fourth quarter with large exposure to North American equities, commodities, and emerging markets. Within the North American equity sleeve, the portfolio focused on the financials sector, as well as targeted exposures to technology, dividend growth, industrials, and consumer discretionary. As the quarter progressed, the Pool maintained exposure to the financials sector, added industrials and reduced technology exposure. Consumer discretionary sector exposure in the homebuilding significantly contributed to performance. Other strong contributors were dividend growth stocks such as First Trust Rising Dividend Achievers ETF (RDVY) and iShares Core High Dividend ETF (HDV) benefiting from rising yields and the prospect of higher interest rates. Emerging markets exposure was reduced throughout the quarter as these equity markets came under pressure based on the strengthening of the U.S. dollar. Exposure to cryptocurrencies throughout the quarter contributed positively to performance.

Barometer Equity Pool

The Barometer Equity Pool entered the quarter with an overweight position in the technology sector. However, as the quarter progressed, these positions were reduced as the portfolio transitioned out of exposure to long duration, high multiple technology names favouring shorter duration assets - positions less sensitive to upward move in yields and interest rates. Portfolio exposure was instead transitioned into consumer discretionary, utilities, and materials sectors. For example, Aritzia Inc. (ATZ), a position in the equity pool made a positive contribution to performance as the company benefited from a strong North American consumer and the reopening of physical locations. Aritzia also managed to successfully navigate many of the supply chain issues faced by peers. Within the healthcare sector, Zoetis Inc. (ZTS) made a positive contribution to performance as they continued to successfully introduce new product lines in their domestic animal segment as demand for products within this segment remained robust. The pool also rotated out of many of its small-cap positions in favour of larger-cap stocks.

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For example, the pool was stopped out of its position in Snap Inc. (SNAP) after a weak Q3 earnings report. The pool also sold Veritone Inc. after the name underperformed. Technology exposure was a detractor to performance in the 4th quarter but remained a positive contributor to over the longer market cycle, contributing to significant performance in 2020 and helping longer term numbers despite the fourth quarter disappointment in the sector.

Barometer Long Short Pool

The Barometer Long Short Pool entered the fourth quarter with a significant weight in the technology sector which was reduced by half over the quarter. The pool sold much of its exposure to long duration, high multiple technology and rotated into shorter duration, larger cap technology. In addition, the pool increased exposure to the discretionary sector by covering short positions in Canadian Tire Corporation and Magna International Inc., and adding Century Communities Inc. and Uni-Select Inc.
Positions that detracted from performance were Q4 Inc., Veritone Inc. , and Tokens.com Corp representing growth technology stocks pull-back in December. However, the pool held short positions in Lightspeed Commerce Inc. and PayPal Holdings Inc. which both made a strong positive contribution to pool return. Even though technology exposure was a detractor to performance in the fourth quarter, it remained a positive contributor to over the longer market cycle, contributing to significant performance in 2020 and helping longer-term numbers despite the fourth quarter disappointment in the sector.

Looking Forward

The emergence of the highly transmissible Omicron variant led to a spike in equity market volatility at the end of November, however, market volatility did smooth as data from South Africa and the UK indicated a lower risk of severe disease.

As we enter 2022, we expect inflation to be top of mind for market participants as too much money seems to be chasing too few goods. This should benefit commodity prices, and we have positioned portfolios accordingly by adding materials and energy exposure.