DECEMBER 2024

Q4 report

The fourth quarter proved consequential as equity markets continued to rally and the global political landscape shifted. The re-election of former U.S. President Donald Trump informed a thematic shift inside of U.S. equity markets towards deregulation and reshoring beneficiaries. This shift caused sharp rallies in the financials and industrials sectors, which Barometer portfolios maintained overweight exposures to throughout the quarter. Bank stocks were buoyed by the prospect of rebounding merger and acquisition activity as the enforcement agencies are to be declawed. Decreased probability of more stringent capital requirements also helped banks, both large and regional.

AI and its related impacts continued to influence markets. In the fourth quarter, investor focus shifted towards future power demand growth as datacenter build-out will require substantial investments in energy supply. Large datacenter operators signed numerous nuclear power supply contracts, but it is increasingly likely that in the near term, incremental power supply in the U.S. comes from natural gas.

While the Federal Reserve maintained their stance of policy easing through most of the year, the first indications of a change in course came during the December Federal Open Market Committee meeting where one member dissented in favour of no rate cut, and language turned more hawkish. Potentially inflationary policies proposed by the incoming administration were cited as the reason for this change, and this did put some pressure on risk assets as the Federal Reserve is a big ship to turn and a turn appears to be starting.

Canada seems poised for a change in administration as it appears the Liberal party's mandate to govern has eroded substantially, increasing the probability of an election early in 2025. Polls show probability

barometer

of a conservative prime minister – which should usher in a more business-friendly environment, creating a rich catalyst path for the Canadian equity market. The Canadian dollar closed the year near lows after the deficit came in substantially higher than expected during the Fall budget update.

In December, the momentum factor corrected quite severely post FOMC meeting which did have an effect on Barometer portfolios. We exited the year with a small cash balance to hedge against further volatility but our outlook remains structurally positive as we enter the new year. Volatility driven by U.S. trade policy is an almost-certainty, so we remain prepared to adjust portfolios as needed.

Barometer Tactical Equity Pool

The Barometer Tactical Equity Pool increased exposure to the industrials sector from approximately 22% of pool assets to approximately 27% as the quarter progressed. Industrials sector exposure made a strong positive contribution to pool performance during the quarter as diversified exposures like Axon Enterprise Inc. (AXON), AtkinsRealis Group Inc. (ATRL), and Howmet Aerospace Inc. (HWM) delivered strong returns. The pool took a position in Axon just before the company reported second quarter earnings which surprised to the upside as the company is seeing much better than expected growth in subscription services due to very high demand for AI products. Axon's AI products allow police officers to automate report writing, which frees up time for police officers to do more policing. Police departments are increasingly eager to implement this software, and their business comes at high margins for Axon which is a big part of the reason why the stock has worked so well. The pool owned Howmet throughout the quarter which has been a strong positive contributor to pool performance on a year-to-date basis as well. Howmet continues to benefit from dislocations in commercial aircraft and commercial aircraft engine production that has caused aircraft owners to keep planes in service longer. Since Howmet provides aftermarket aircraft parts and service, their business continues to grow nicely as these dislocations continue to persist.

Exposure to the financials sector also made a nicely positive contribution to pool performance during the quarter. Exposure was increased from approximately 20% of pool assets to approximately 27% as the quarter progressed. The pool's large-cap US bank exposures, specifically JPMorgan Chase & Co. (JPM) and Goldman Sachs Group Inc. (GS) worked well during the quarter as the results of the U.S. election proved positive for banks. The incoming administration in the U.S. has committed to deregulation, which should reduce regulatory burden for companies looking to do mergers and acquisitions, thereby increasing the amount of capital markets business for large banks. It is also likely that as part of a deregulation push, capital requirements become

barometer

slightly less onerous on large banks.

Information technology sector exposure also worked well during the quarter with the pool's position in Apple Inc. (AAPL) and NVIDIA Corp. (NVDA), as well as Motorola Solutions Inc. (MSI), making notably positive contributions. Apple worked during the quarter, especially late in the quarter, as mega-cap U.S. technology companies continued to churn higher. While the outlook for Apple is not one of explosive growth, the company saw some positive divergences during the quarter that led investors to conclude the outlook for overall company growth and iPhone sales specifically would be better than expected. The pool's position in NVIDIA worked well during the quarter as the company continued to report extremely solid growth numbers driven by voracious demand for NVIDIA GPUs. Motorola Solutions has been a long-standing holding in the pool and continues to perform well. Its dominant position in supplying communications equipment to police departments and government agencies in the U.S. is expected to remain advantageous under the new administration.

Materials sector exposure made a negative contribution to pool performance during the quarter, as did health care exposure. Exposures to both sectors were reduced as the quarter progressed. Copper pricing softened causing names like Teck Resources (TECK/B) to come under pressure. Teck Resources was subsequently sold out of the portfolio. In health care, both Novartis AG (NVS) and Regeneron (REGN) were sold before they both reported disappointing drug trial results.

Barometer Tactical Income Pool

During the fourth quarter, the Barometer Tactical Income Pool increased its exposure to the financials sector, which contributed significantly to the pool's performance. Specifically, the pool held both banks and insurance companies, and both continued to deliver strong results—as they have for most of the year. Canadian Imperial Bank of Commerce (CM) has delivered four consecutive quarters of strong earnings, reflecting solid momentum in its domestic Canadian P&C banking business. The bank has avoided many of the challenges currently impacting some of its peers with larger international franchises, such as TD and BMO. Although CIBC's stock previously traded at a discounted valuation due to concerns over Canadian housing exposure, those risks have abated as interest rates decline. Despite recent improvements in valuation, the stock still trades at a discount to its peer group. In the U.S., the pool continued to own JPMorgan Chase & Co. (JPM) which benefitted from increased likelihood of better merger and acquisition activity driven by the incoming administration's deregulation agenda as well as the decreased likelihood of more onerous capital requirements. In the insurance industry, ownership of Fairfax Financial Holdings Inc. (FFH) also made a positive contribution to pool performance. Fairfax continues to see strong results in their

barometer

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 into next year.

Information technology sector exposure made a notably strong contribution to pool performance during the quarter. Exposure to Apple Inc. (AAPL) continued to work well as investors sought a safe-haven name to own in technology, and as mega-cap technology names continued to churn higher. Despite Apple stock trading well, sentiment is not overly elevated and expectations for forward iPhone sales are not excessively high, suggesting further room to run. Ownership of NVIDIA Corp. (NVDA) also contributed positively to pool performance during the quarter as the company continued to see voracious demand for GPUs. NVIDIA successfully navigated through the production issues with their Blackwell generation of GPUs that caused some weakness in the stock during the third quarter, rallying back to make new all-time highs during the fourth quarter.

Consumer staples sector exposure contributed positively to pool performance during the quarter, driven primarily by ownership of Loblaws (L). Loblaws worked well throughout the quarter and continued to use their dominant market share to further their scale advantage over other Canadian grocers.

Industrials exposure made a negative contribution to pool performance during the quarter and was subsequently reduced from approximately 14% of pool assets to 10% late in the quarter. The sharp selloff in momentum seen in late December had an outsized effect on stocks like BWX Technologies Inc. (BWXT), a name that had been a staple in the pool for most of the year, and new additions like Caterpillar Inc. (CAT), which started to work well after the U.S. election. Both names were sold out of the portfolios due to a deteriorating technical picture.

While utilities sector exposure was small, it did make a negative contribution to pool performance due primarily to performance from NextEra Energy Inc. (NEE) post-election. While NextEra is one of the largest nuclear power plant operators in the U.S., the company has a lot of wind and solar exposure which is less desirable under the new administration.

Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool saw its exposures to the financials sector, across numerous industries, contribute positively to performance during the quarter. In banking, the pool maintained its position in JPMorgan Chase & Co. (JPM), which benefitted from the incoming administration's deregulation efforts—enhancing prospects for stronger merger and acquisition activity—and the decreased likelihood of more stringent capital requirements. In payments, exposure to Visa

Inc. (V) contributed positively to pool performance, also due to increased deregulation likelihood. Visa had been somewhat in the crosshairs of the outgoing administration and this regulatory pressure is likely alleviated soon. In the insurance industry, ownership of Fairfax Financial Holdings Inc. (FFH) also contributed positively to pool performance. Fairfax continues to deliver strong outcomes in its insurance operations, even as it becomes more selective when writing new business. The company's investment returns have exceeded management's forecasts, fueling large buybacks that are likely to remain substantial into the upcoming year.

Information technology sector exposure made a notably strong contribution to pool performance during the quarter. Exposure to Apple Inc. (AAPL) continued to work well as investors sought a safe-haven name in technology, and as mega-cap tech stocks continued to trend higher. Despite Apple's strong price performance, sentiment remains measured, and forward iPhone sales expectations are not excessively high, suggesting there may be further room for growth. Ownership of NVIDIA Corp. (NVDA) also contributed positively to pool performance during the quarter, as the company continued to see robust demand for GPUs. NVIDIA successfully navigated the production challenges with its Blackwell generation of GPUs—which had caused some weakness in the stock during the third quarter—ultimately rallying to reach new all-time highs in the fourth quarter.

Consumer staples sector exposure also contributed positively to pool performance during the quarter, primarily thanks to ownership of Loblaws (L). Loblaws performed well throughout the period, continuing to leverage its dominant market share to strengthen its scale advantage over other Canadian grocers.

Industrials sector exposure made a positive impact during the quarter, thanks in large part to ownership of AtkinsRealis Group Inc. (ATRL). AtkinsRealis has a global footprint with expertise in infrastructure, energy, and environmental solutions. With around 20% of its revenue coming from the U.S., AtkinsRealis is poised to benefit from the Trump administration's emphasis on re-shoring and increased infrastructure spending. Another key component of AtkinsRealis' business is its nuclear segment, which represents roughly 13% of revenue and has experienced strong growth amid renewed investment in nuclear energy. The company is well-positioned to capitalize on potential life extensions of existing reactors and the construction and maintenance of new facilities using CANDU nuclear technology.

The pool's exposure to the energy sector was small throughout the quarter and made a slightly negative impact to pool performance. Shares in Cameco Corp. (CCO) were affected by some volatility in uranium pricing, despite the broader trend moving higher in the commodity.

barometer

Barometer Global Macro Pool

The Barometer Global Macro Pool increased exposure to U.S. equities as the quarter progressed, a decision that made a notably positive contribution to pool performance. Financials sector exposure, primarily driven by ownership of the SPDR S&P Capital Markets ETF (KCE) and the SPDR S&P Insurance ETF (KIE), worked well for the pool during the quarter. Midcap exposure, achieved through ownership of the Invesco S&P Midcap Momentum ETF (XMMO) contributed positively as midcap stocks outperformed during the quarter. Consumer discretionary sector exposure contributed positively as well.

The pool's cryptocurrency exposure contributed positively to performance as crypto prices performed well during the quarter. The pool owned the iShares Bitcoin Trust ETF (IBIT) throughout the quarter which rallied as the likelihood of coming cryptocurrency deregulation increased.

The pool carried a large position in commodities, specifically precious metals, throughout the quarter. This had a negative impact on pool performance as gold ended the quarter slightly negative, while silver ended the quarter solidly negative. On a year-to-date basis, these exposures made a positive contribution, as both gold and silver rallied, but some performance was given back in the fourth quarter.

The pool carried a large short position in U.S. dollar which made a negative contribution to pool performance as the currency rallied vs. global currencies post-election. The pool's short position in fixed income made a slightly positive contribution to performance as the positive return from the pool's short position in the iShares 20+ U.S. Treasury Bond ETF offset the slightly negative return from the pool's short position in U.S. corporate debt, achieved through sale of the iShares Core U.S. Aggregate Bond Index ETF.

The information, opinions and any forward-looking statements contained in this commentary have been compiled or arrived at from research sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. Opinions expressed are subject to change without notice, as are any statistical, price or yield data. A portfolio manager's assessment of a particular security, investment or strategy is not intended as an investment recommendation; it is intended only to provide insight into portfolio selection process. Additional information is available on request regarding the performance of the Barometer Private Pools, Barometer Group of Funds or the Barometer Mandates. Barometer disclaims any obligation to publicly update or revise any views or forward-looking statements.