Arrow Capital Management Inc.

Experience. Active Management.

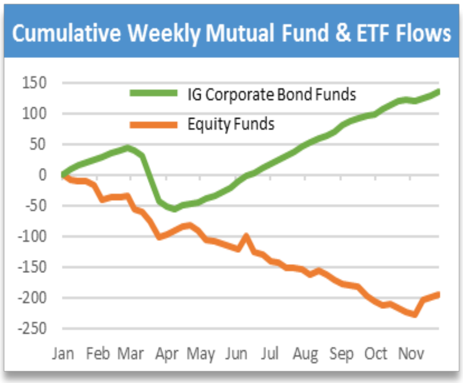
EAST COAST MARKET COMMENTARY

NOVEMBER 2020

Markets decided to focus on the Covid-19 'cure' as opposed to the record number of cases or weaker economic growth in November. After posting a weak October return, talks of treatment won out over the spread of Covid-19, hospitalizations, and death rates. At the same time, equity markets seemed to ignore the likely economic knock-on effect from increased lockdown measures. Although Trump has yet to concede, the Trump administration started the presidential transition with Biden initiating cabinet and advisor announcements. The US stock market (S&P 500) closed the month +10.95% and Canada (TSX Comp) finished +10.57%. Rates were volatile on the month but closed mostly unchanged with US 10yr Treasuries better by -3bps and Canadian 10yr GoCs weaker by +1bp. Corporate Credit spreads were also a strong performer and continued their rally with a sizeable 19bps spread compression in November.

CREDIT SPREAD PERFORMANCE

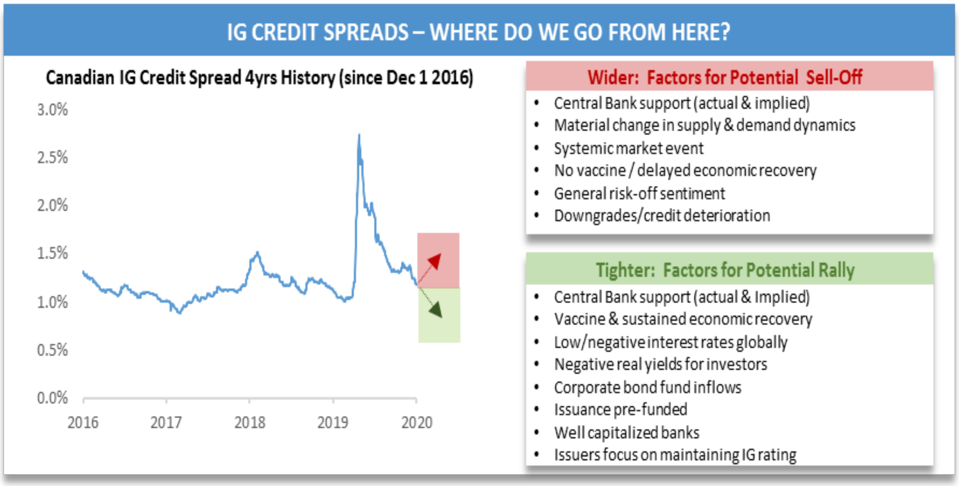
Credit spreads have retraced over 80% of March's COVID-19 weakening (when compared to 2020's most expensive levels). The Canadian IG credit spread index is currently yielding 1.18% (118bps), having hit a wide (cheapest) of 2.68% on March 25th and a tight of 1.00% (most expensive) in early 2020. This yield seems low, however, the majority of non-US developed Nation's currently have negative bond yields (5yrs) – meaning Global fixed income investors are extremely limited if they want to achieve a positive return experience and diversify away from just the US. This helps explain the large rally in IG credit spreads and the argument for why spreads could continue to rally from current levels. There has been massive demand/inflow into US IG corporate bond funds & ETFs. Even accounting for the largest ever outflows on record during March's mayhem, the chart at right shows how Corporate bond inflows (green line) have more than recovered from the COVID-19 blip, while equity flows (orange line) have seen sizeable net outflows from mutual funds and ETFs in 2020 (yet continue to print new, all-time highs presumably due to retail inflows). The supply side has seen record IG corporate bond issuance in 2020 (mostly pre-funded in Q1/Q2) but virtually all estimates for 2021 appear more tempered with supply expected to dampen.



Source: US Refinitiv Lipper Weekly Fundflows

THE FUTURE OF CREDIT SPREADS

There are several key determinants of credit spread levels; however, history has shown Macro factors as being responsible for setting the outright market level – or spread range. Specific market or issuer factors determine the spreads of actual issuers and bonds within the overall market. It is very difficult to prepare for some Macro factors, but, we believe that Canadian IG credit will continue to be well supported H1 2021 (reasons outlined in chart below in green and in more detail in the attached podcast). We continue to look to take profit on names and industries we believe may still see some pressure as we navigate the recovery and economic impact of COVID-19 while also holding high quality investment grade names that contribute to our current yield. That said, we have reduced our overall market exposure and leverage to ensure our portfolio has plenty of flexibility to add risk if we see any short term weakness (reasons for potential sell-off in chart below in red). There is room for spreads to perform further with current levels still 20% wider than pre-COVID, in fact, we believe there is a growing argument that IG credit spreads trend back towards pre-GFC levels (which were much tighter) given the amount of fixed income dollars searching for positive yields.



MARKET SNAPSHOT

Canada		US	
Credit (Bloomberg Barclays Cdn Corporate Index)	Rallied 19bps	**Credit** (Barclays US Aggregate Credit Index)	Rallied 19bps
Equities (TSX Composite)	10.57%	**Equities** (S&P 500)	+10.95%
Interest Rates (GoC 10yr)	Weakened 1bps	**Interest Rates** (TSY 10yr)	Rallied 3bps

Thank you for your continued interest in the Fund. For further information, please contact your regional Arrow Capital Management representative.

Sincerely,

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