Manager’s Commentary

Greg Taylor, CFA

Market Insights

August lived up to its reputation for volatility, however this year the move was to the upside. There has been much for investors to be concerned with this year and that has kept many on the sidelines. That may still prove to be the correct positioning, but the ‘pain trade’ remains higher and there is a bias to the upside.

Earnings season has come and gone and by and large it has been positive. With so much uncertainty around tariffs and trade it made for a difficult environment for forecasting which kept expectations low. The strength of the consumer has also come into question given persistent inflation and, in the US, immigration policies. However, management teams have done an admirable job of controlling what they can and are getting used to the ‘new normal’.

As companies become more comfortable in the new environment, we should see M&A and other corporate activity increase over the coming months. When President Trump came to office the expectation was for him to unleash a flood of deals, as money was freed up and regulations slashed. That was put on hold with the tariff battles, but as those are resolved it’s now time to get the party started.

The one glitch in the President’s plan had been that interest rates haven’t come down to the level he wants. Globally central banks have been cutting as their economies come back to a steady state and inflation falls. Unfortunately, that hasn’t been the case in the US (somewhat self-inflicted due to the aforementioned tariffs). As a result, he has reverted to his reality TV background, attempting to mould the FOMC in his image by firing those that disagree with him. This ‘Trumpification’ of the FOMC will be the most important focus this fall.

A rate cut for September is now the expectation as Fed Chair Powell signaled at the Jackson Hole conference to end of August. But it appears more of a political than economic move. In the best-case scenario, they are cutting rates to help improve the employment market. In the worst-case scenario, they are cutting into stagflation.

Pay attention to gold and what it may be telling us. Usually when markets are at all-time highs a commodity which is viewed as an insurance policy is ignored and an afterthought. Yet it continues to move higher. It has been the best performing asset class this year, also at new all-time highs. This is not normal action and something that bears watching.

Maybe that is the plan all along? With record amounts of debt in the system one solution is just to inflate your way out of the problem. If everything else goes up in value the debt looks smaller in relation. That’s why the pain trade is jumping off to the sidelines only to watch everything else keep moving higher in value.

So we aren't out of the woods yet. While August was a positive month there remains much that can go wrong. This makes for a very challenging environment. Volatility will remain, the only debate is what happens when everyone decides they have had enough and are content with their gains. It's impossible to say when that will occur, but seasonally we believe this is the time it normally occurs.

During the month we were successful in moving the Select equity fund over to Penderfund. It has been renamed as the Pender Alternative Select Equity fund, but other than that not much has changed and the fund will be managed in the same manner as prior years and we look forward to growing it.

Fund Update

For August the Fund was up by 3.4% and is now up 18.9%[1] on the year. The S&P/TSX Composite Index returned 5.0% for the month and 17.6% year-to-date.

August has always proven to be a tricky month, and this year was no exception with much stronger returns than expected. We were able to keep a positive return while being defensively positioned, although trailed the benchmarks as broader markets continued their rally off the April lows.

Golds and base metals were the biggest contributors for the month as these commodities continue to rally from increased demand and a declining US dollar. On the other hand, our crypto positions were a drag as Bitcoin failed again to break through $120,000 on the upside. We continue to remain positive on both into year end.

Heading into September and October we remain more cautious on the broader market but acknowledge that the market performance of late has been impressive. There appears no immediate threat on the horizon but with the cost of insurance low, we continue to look at hedges in the options market. We expect increased corporate activity this fall and as such have reduced our short positions and increased positions in the investment banks that should benefit.

Thank you for supporting the Fund move and we look forward to working together to navigate an increasingly interesting market environment.

Greg Taylor, CFA
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[1] *All Pender performance data points are for Class F of the Fund unless otherwise stated. Other classes are available. Fees and performance may differ in those other classes. Standard Performance Information for the Fund may be found at www.penderfund.com*