

Monthly performance, macro context, current positioning and future expectations.

Performance

November 18th, 2022

Arrow Canadian Advantage Alternative Class (F Class):

WTD 0.31%

MTD -1.69%

YTD 1.37%

S&P TSX Composite:

WTD -0.65%

MTD 2.86%

YTD -5.85%

S&P 500:

WTD -0.69%

MTD 2.41%

YTD -16.80%

Fund Commentary

The Fund had a decent week on the back of our strong results in our long/short book. We had a high/positive hit rate especially on the short side in discretionary and industrials.

Rather than speaking on markets maybe a brief comment on US politics. While we spend most of our time trying to map and forecast the business cycle, policy (monetary/fiscal/geo-political) issues all play a role in both the path and rate of change of inflation and economic growth – so it is important to have a view and monitor these developments closely. This past week we caught up with the Piper (ex Cornerstone) Policy strategist veteran Andy Laperriere for an update post US mid-terms and we gleaned several important take-aways.

Firstly, with Congress now officially divided, we have entered a lame duck session and so, not much should be expected in terms of passing outstanding legislation save for further defense spending, political “investigations” (aka grand standing) and most likely a debt-ceiling showdown. The latter is the most important as much higher rates, continued

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big deficits and a high level of debt to GDP will offer canon fodder for the GOP to press back against tax/spend initiatives. Andy notes that we are likely to see in excess of \$200 bn in potential fiscal tightening in 2023. On the margin, this will remove some of the growth potential in the US economy.

Secondly, the mid terms produced some interesting developments wrt the 2024 elections. The failure of Trump backed tickets and the resilience of the Dems. On the former, Andy notes that the Trumps odds of winning the ticket rise if a large number of candidates run for the nomination otherwise the odds favour DeSantis as the nominee. While Trump has a rock solid core, his chances (based on the mid terms) are diminished to win versus DeSantis wrt the swing/independent voter. On Biden, polling suggests his own party would prefer someone else. Biden celebrated his 80 birthday this past weekend – the first sitting President to achieve that milestone. That being said, any actuary will tell you time is running short on his life expectancy so, if he was planning to step down, it would make the most sense to do so in the next few months. That being said, this is entirely his decision; gone are the days of the “smoke-filled” room where the party brass crowns a successor. Ditto for the GOP as proven demonstrably by Trump. We reviewed all the possible candidates / outcomes on both sides and while entertaining it is simply too early.

The coming week features US Thanksgiving on Thursday so it will be quiet. Aside from the slate of FED speakers and the FED minutes on Wednesday we don’t expect much in the way of fireworks. If you recall last year we got the Omicron news on Thanksgiving – that was wild – hopefully nothing major this week. We will stick with our positions but we do believe December could be a real challenging month for markets.

Geographic Equity Exposures (% Total Portfolio including Futures)

ASSET ALLOCATION	NET	GROSS	LONG	SHORT
US	-10.0	34.1	12.0	-22.0
Canada	3.5	31.5	17.5	-14.0
Rest of World	0.9	2.5	1.7	-0.8
Equities Total	-5.6	68.0	31.2	-36.8
Bonds	8.1	8.6	8.3	-0.2
Commodities	3.3	3.3	3.3	0.0
Total	5.9	80.0	42.9	-37.0

Net equity exposure was increased from -7.0% to -5.6%.

Canada net exposure was increased by 2.4%.

US net exposure was reduced from -8.1% to -10%.

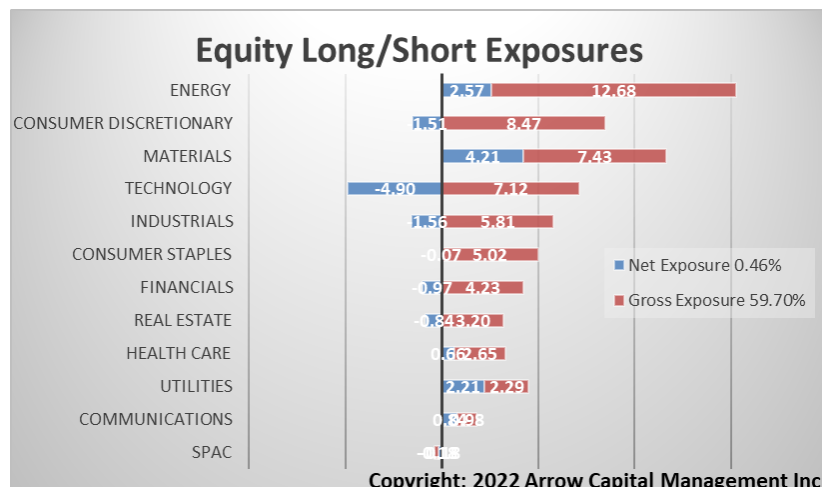
Rest of World net exposure was increased by 0.8%.

Net bond exposure was increased by 1.9%.

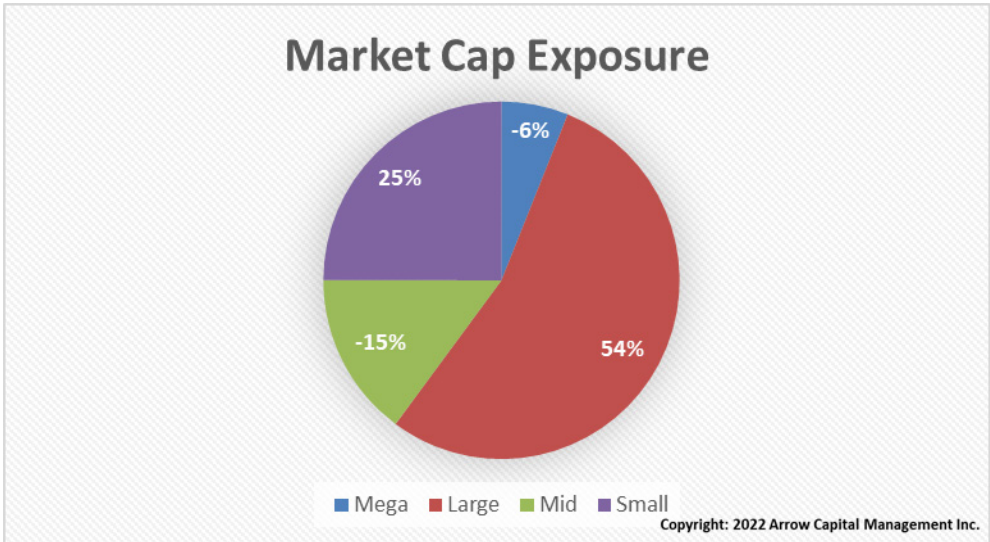
Net commodity exposure was reduced by 1.1%.

Total fund gross exposure was increased by 1%. Total fund net exposure was increased by 2.2%.

Sector Exposures (% Long / Short Portfolio of individual companies)



Market Cap Breakdown



FX Exposures:

FX EXPOSURE	%
CAD	68.3
USD	35.2
Other	-4.0
DXY	2.3
Total Fund	100.0%

As a reminder, we view foreign exchange as active “bets” that are used to either generate alpha or act as a hedge to the overall portfolio. The Fund’s reference currency (except for the USD class) is the Canadian dollar so any exposures other 100% Canadian dollars are considered “active” positions.

CAD was reduced by 2.5%. USD was increased by 4.2%.

We look forward to reporting back next week.

Thanks,

Arrow Investment Team

Historical Performance – As of October 31, 2022

	1-Year	3-Year	5-Year	10-Year
ACAA - Series F	3.62%	16.46%	11.14%	10.43%

Published November 21, 2022

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