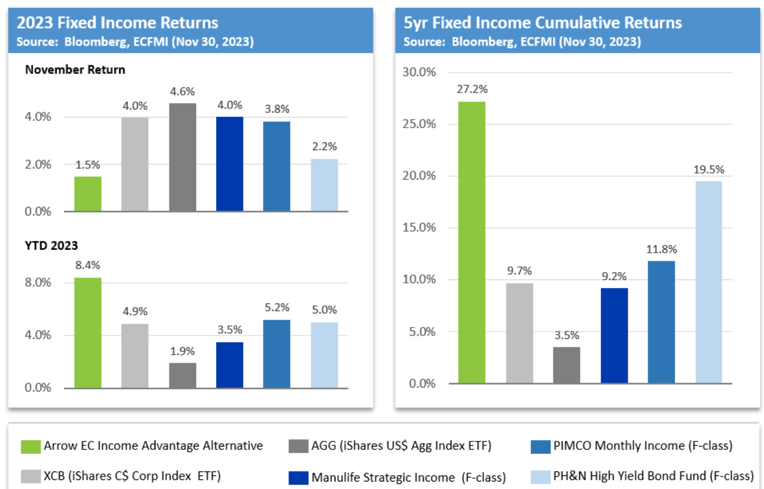
EAST COAST MARKET COMMENTARY
NOVEMBER 2023

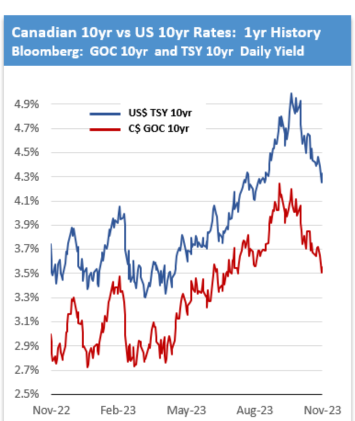
As we headed into the final quarter of the year, investors were bracing for an unprecedented third straight year of losses within their fixed income allocations, but what a difference a month can make. The Bloomberg US Aggregate index, which is the longest available broad-based fixed income index (history dating back to 1970s), posted it's best one month in almost 40 years (1985). Soft inflation and cooling jobs data initiated the rally in rates; however, the shift in Fed tone this month cemented the market rally, as Fed Governor Waller openly discussed rate cuts, stating if the decline in inflation continues "for several more months...we could start lowering the policy rate just because inflation is lower. It has nothing to do with trying to save the economy. It is consistent with every policy rule. There is no reason to say we will keep it really high." While Fed Chairman Powell stated it was 'premature' to declare victory on inflation, he used a much more balanced tone when asked to comment on Wallers remarks. Recent economic data appears to be reinforcing the concept of a policy pivot (from hiking to cutting) and hope for a soft landing. Inflation has come down and the economy, while slowing slightly, has not shown signs it is headed for a recession.

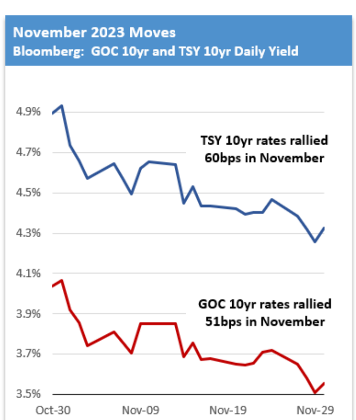
The perceived central bank pivot saw US treasury yields (rates) plummet, which resulted in an aggressive rally in rates - lower yields means higher prices. **Investors, fearful of missing out on 5%+ yields, plowed into fixed income assets, and short covering further compounded the market rally.** By month end, interest rates had rallied (yields lower) by 40-50bps in the front end (2yrs) in both Canada and the US, and longer maturities (5yr/10yr/30yr) had rallied an immense 50-60bps+.

This rate move ignited a powerful global markets rally in virtually everything from equities to credit (IG and HY) to emerging markets and even cryptocurrencies. US equities (S&P 500) rallied 9.1% and Canadian equities (TSX Comp) rallied 7.5%. Investment grade (IG) credit rallied a sizeable 22bps in the US (US Aggregate Credit Index) and 13bps in Canada (Canadian Aggregate Credit Index).



As investors would expect, after the largest monthly fixed income rally in decades, index and traditional funds with rate exposure, outperformed in November, as the November return chart shows at right. That said, even without the rate rally benefit, our portfolio positioning still enabled a very strong return for investors as credit spreads compressed (rallied) on the month. The strategy, which aims to immunize investors against movements in interest rates, has paid off for investors again in 2023. Even with the November rate rally, most fixed income funds have barely been able to outpace inflation, delivering their investors a minimal real rate of return (return after inflation and taxes), year to date.

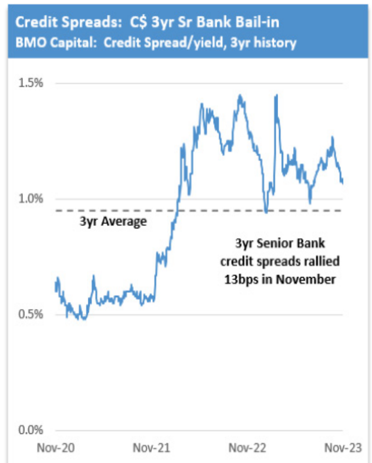


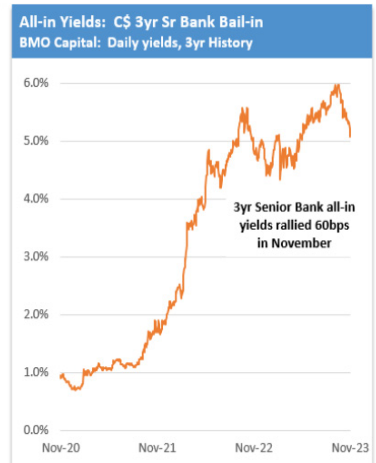


The initial rally in rates drove a fixed income feeding frenzy, as investors jumped on board, most fearful they may not see high-quality fixed income investments yielding over 5% or 6% again. The snowball effect of the rate move – both the speed and magnitude of the swing – forced some short covering by investors who had likely made sizeable gains, having bet against interest rates and fixed income within their portfolios. **Money managers, who had shied away from fixed income within their investor's asset mixes over the last few years, likely added exposure as well.**

The far-left chart shows Canadian and US 10yr interest rates over the last year, while the near left chart shows a magnified view of the 50-60bps rally that occurred in the month of November. The direction of interest rates from here will be highly data-dependent. Rates will fall further if we see continued signs that inflation and the economy are slowing, while any spike in inflation will see rates rise.

Investment grade (IG) credit spreads rallied in November as investors rushed to buy any asset and not miss out on the compelling all-in yields of corporate bonds. The chart near-right shows the 13bps rally in C$ 3yr Senior Bank Bail-in credit spreads on the month. **Current IG credit spread levels remain cheaper (wider) than historic averages.** Over the last three years, spreads have been tighter (more expensive), by as much as 55-60bps, but have also been wider (cheaper), by as much as 35-40bps, than current levels.





The far-right chart emphasizes the sudden decrease in all-in yields in November. This drop in yield lead to a surge in demand, which outweighed supply, and drove credit spread compression. The result was a significant 60 basis points reduction of the all-in yield for C$ 3-year Senior Bank Bail-in bonds, or a notable 88 basis points (0.88%) decline from the October peak.

Many investment managers remain underweight fixed income within their portfolio asset mix. We believe this will help protect against any significant widening of IG corporate spreads in the near future, as these managers look to add exposure on any back-up, or increase, in all-in yields.

The rally in interest rates signals the markets belief that central bank policy has pivoted, and the market is now pricing in rate cuts starting early 2024. The US market is currently pricing in five rate cuts throughout 2024, with a 50% chance we see the first Fed cut in March 2024. The Canadian market is currently pricing in four rate cuts throughout 2024, with a 50% chance we see the first BoC cut as early as March 2024. **This pricing reflects aggressive rate cutting, and a very quick policy turnaround by the central banks. As such, we believe this rate move is likely overdone, and the pain trade would be higher inflation prints than the market would like, over the next 6 months.** This would cause a sell-off, or rise, in interest rates and weakness for equities.

Ultimately, while we believe IG credit spreads continue to look attractive on a historic basis, we acknowledge that life doesn't follow a linear path, so we will likely see some spread widening (weakness) at some point over the next 6 months. **The investment team has been able to maintain a high expected total return[2], even after the credit spread rally and resulting strong return to investors, in November.** The current 8.3% expected total return remains attractive for investors. It also helps highlights the positive impact of portfolio positioning and active management throughout various stages of the market cycle. Lastly, the expected total return helps buffer investors if we do see a modest pull back after the strong performance of spreads in October and November.

We believe the portfolio is well positioned, with an even shorter average maturity (2.3yrs) and higher average credit quality (A- rating) than where we started the month of November. **If market opportunities present at the right risk-adjusted level, we will use spread weakness to add exposure.**

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	9.42	4.58	4.94	3.63	3.68
East Coast Investment Grade II Fund Cl F	14.37	7.31	8.34	6.55	6.35

Returns as of November 30, 2023

[2]Expected Total Return represents the expected annual portfolio return and comprises the weighted average yield-to-worst of the portfolio's holdings plus the weighted average roll-down return, plus the money market yield on Fund assets, net of any funding costs.

The inception date of the Arrow EC Income Advantage Alternative Fund (formerly East Coast Investment Grade Income Fund) was April 26, 2012. On June 26, 2020, the East Coast Investment Grade Income Fund (TSX: ECF.UN) was converted from a closed end fund into an open-end alternative mutual fund, renamed Arrow EC Income Advantage Alternative Fund and delisted from the TSX. Details of the conversion are outlined in the information circular which is available at www.sedar.com. Unitholders of Fund had their units redes¬ignated as Series FD Units. The inception date of the East Coast Investment Grade II Fund is April 1, 2013.

Commissions, trailing commissions, management and performance fees and expenses all may be associated with mutual fund and exchange-traded fund (ETF) investments. Please read the prospectus and Fund Facts for Arrow EC Income Advantage Alternative Fund carefully before investing before investing. Offering of securities in the East Coast Investment Grade II Fund are made pursuant to a Confidential Offering Memorandum (OM) only to those investors who meet certain eligibility or minimum purchase requirements. Important information, including this fund's fundamental investment objective is contained in the OM which may be obtained from Arrow Capital Management Inc. Please read the OM before investing. Unless otherwise indicated, the indicated rates of return are the historical annual compound total returns net of fees and expenses payable by the fund (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds and ETFs are not guaranteed, their values change frequently and past performance may not be repeated. You will usually pay brokerage fees to your dealer if you purchase or sell securities of an ETF on recognized Canadian exchanges. If the securities are purchased or sold on these Canadian exchanges, investors may pay more than the current net asset value when buying securities of the ETF and may receive less than the current net asset value when selling them.

The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values or returns on investment in an investment fund.

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The comparison presented is intended to illustrate the historical performance of Arrow EC Income Advantage Alternative Fund and East Coast Investment Grade II Fund (the "Funds") as compared with the historical performance of a widely quoted market index or a weighted blend of widely quoted market indices or other investment funds. There are various important differences that may exist between the Fund and the stated indices or other investment funds that may affect the performance of each. The objectives and strategies of the Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices. Certain statements contained in this communication are based in whole or in part on information provided by third parties and Arrow Capital Management has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document. Published December 2023.