

Manager's Commentary

Greg Taylor, CFA

Market Insights

Another month is in the books along with another move to all-time highs for many equity indices. The strength of this bull market really has been impressive, and the fact no one was calling for it makes it even more enjoyable. Like the Blue Jays, the year began with very low expectations, but all of those have been surpassed, even if there won't be a parade.

Investors have gotten into the habit of expecting some sort of volatility in the Fall, as we begin to look forward to the coming year. However, seasonality hasn't worked this time around, and after navigating the danger zone of August through to October, we are now looking at the prospect that could see a run into year end.

Earnings have been the main concern for many. Valuations are near the top of historic levels and for markets to move higher would come down to earnings growth. The uncertainty surrounding tariffs and trade wars made setting expectations increasingly difficult. Add to that weakness in the housing market, private credit concerns and a struggling low-end consumer which only heightened the risk. But with the support of surging AI spending and healthy corporate balance sheets, markets continued their surge higher.

For the month of October, the main weakness was in the 'safe' parts of the market. Gold and silver have been enjoying one of their strongest years ever. But nothing goes up in a straight line and gravity caught up to these commodities, causing some mid month volatility. By no means does it look like this theme is over, but a reset was needed. Maybe that makes sense. If everything is working, why do you need the insurance policy?

So what is going to derail this run? Earnings season is wrapping up ahead of expectations minimizing that risk, while central bankers remain market friendly, enacting another round of rate cuts with the potential for more to come. To further complicate the matter, a US government shutdown is keeping a lid on US economic data for the near term. On the trade front, tensions seem to be cooling between Trump and China and deals have been reached with other countries. Canada seems the last punching bag, maybe it is a good thing we let the Dodgers win to avoid making it worse?

A lot of good news is now priced into markets and complacency is a valid concern. You never hear the bullet that kills you and the biggest risk ahead is probably something we aren't talking about yet. The positive remains the cash on the sidelines waiting to buy any dip, which should contain any pullback. Investors are having a great year to the surprise of many. However there are still two months remaining and we know how tough it was to get those last two outs in the ninth.

Fund Update

The Pender Alternative Select Equity Fund was higher by 2.09%¹ for October and is now up 33.03% for the year. The S&P/TSX Composite Index returned 1.0% for the month and 25.1% year-to-date. One of the larger themes in the Fund has been a tilt towards those sectors that will do well in a lower \$US world. To get exposure to this theme we have holdings within gold and other materials. These positions have been positive contributors for the year, and while they had a great start to the month, acted as a drag on performance with the price of gold pulling back in the last two weeks.

We remain positive on the materials sectors and have added to our favourite positions on this pullback. While commodity prices can be volatile, the path of least resistance remains higher. An added positive to many names is a change of tone in Ottawa towards supporting new mines and projects. This positive development is leading us to take another look at the energy sector. The typical rotation in commodities starts with gold and ends with energy. If that holds then adding to the ignored energy stocks at these levels looks very attractive.

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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 Pender's Liquid Alternative Funds may be found here: <https://penderfund.com/fund/pender-alternative-select-equity-fund/>