We get FOMO too.

As we constantly reassess our outlook and our portfolios, we too get pulled in different directions. We have a natural desire to compete, and a pride in delivering results.

We certainly see and endeavor to understand the impressive performance of certain growth assets over the course of 2023, which have outpaced most expectations. That performance alone will cause any good investor to reassess, whether they got it right or wrong. That performance will cause some investors to shift to capture some of that momentum, and it will cause others to close out certain winning bets. It will cause shifts among asset classes, among sector choices and other shifts related to how to drive performance for the balance of 2023. We're pleased with our YTD positioning and outcomes.

We are going to stay the course.

We have recently delayed our recession call by one quarter, into early 2024. We continue to expect a mild recession and we're happy with the outcome for our portfolios over the past year. We hear the calls for the potential for a soft landing, while we're confident for now with our lower-risk OM portfolio still producing a running yield of approximately 10% at the end of September 2023. We remind ourselves often that our pledge is "better fixed income solutions", and with that comes certain priorities like capital preservation over returns-at-all-costs, staying on our advertised style, and liquidity management.

We continue to expect a recession for several reasons.

- The effect of one of the largest rate hiking campaigns in history may now be at the top of that list. We do not believe that the effect of renewing mortgages, car loans, business financings and business strategies has had its full and meaningful effect. We like what the low rate environment did for high quality corporation balance sheets, allowing them to term out debt and recapitalize as needed, but we don't like the outlook for lower rated / quality companies who either won't like the cost of refinancing or won't be offered the opportunity. Bluntly, we believe that a lot of the high yield universe is too richly priced and likely headed for a challenging period.

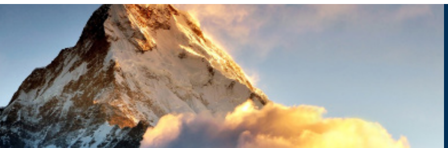
- Inflation. We won't hash out the inflation debate here, but we continue to see it as a sticky problem that will take a while to play out and likely require higher rates, and for longer. Therefore, we do not subscribe to the rate cut theory that a large part of the market is banking on – and that many asset valuations are reliant upon.

- Employment. Employment is strong and is not deteriorating in a meaningful way yet, or at a rate that indicates a recession is imminent. Employment will need to drop to slow consumer spending meaningfully, and to slow the inflation rate back toward 2%. Upward pressure on wages is a factor of employment that keeps inflation sticky, bolsters stagnation concerns, and adds to the rationale for higher interest rates for longer.

- Geo-politics. On-shoring, the cost of conflicts, a shrinking world, the uncertainty caused by ongoing and potential conflicts, etc, all add up to less than ideal or even efficient functioning of businesses and societies.

- Earnings. Yes, our strategy is dedicated to the credit quality of large corporations, and yes, we expect a further moderation in earnings. We expect that moderation to lower profit margins and affect valuations of growth assets, and potentially impair certain lower quality credits, but we do not see earnings dropping to a level that begins to impair the credit quality of good, investment grade companies.

- Personal savings, although off COVID highs, are still elevated compared to pre-COVID levels. These elevated levels are likely to revert to historical norms, and, in the process, create inflationary support.



Does that mean that credit spreads could potentially move wider? It does.

We have positioned the portfolio into shorter-term, higher quality credits, with a focus on liquidity, while eliminating the interest rate risk, and maintaining a healthy running yield. This type of credit has proven to be more resilient in an environment where credit spreads widen, with lower price volatility and steadier credit quality. We also note that short-term investment grade credit spreads, especially Canadian ones, are meaningfully wider that their historical averages and we expect that there is only limited room for those spreads to widen. The recession that we foresee is not the catastrophic GFC or COVID type, rather a more modest, slower economic growth period, resetting certain asset valuations along with the effects of consumer and business failure.

So, FOMO is not changing our plan.

In fact, we feel comfortably positioned with low-risk, compelling yield, and do not expect to ***Fear Missing Out*** as the credit opportunity develops. We quite like how credit is working now, and we have room to re-position for continued outperformance over the next 24-36 months. We're committed to the "***better fixed income***" mandate that you gave us.

OM Credit Fund = YTM Capital Credit Opportunities Fund (COF). Running Yield is the net income earned by a Fund during the next 12 months assuming that the current portfolio and spreads (i.e. bond values) are static, before fees and expenses are deducted. Investors should read the Simplified Prospectus (SP) and Fund Facts (FF) including the Risk Factors sections before making an investment in YTM Capital Fixed Income Alternative Fund and the Offering Memorandum (OM) before making an investment in COF. You can obtain the SP, FF, and OM from YTM Capital Asset Management Ltd. and at ytmcapital.com. Fund data will change and past performance may not be repeated. **www.ytmcapital.com**