Market Review

During Q3 2023, S&P/TSX 60 was down 2.55%. Despite the positive performance in the energy sector as a result of booming oil prices, many other sectors displayed weaknesses that eventually offset positive gains from energy.

The Bank of Canada (BOC) raised the interest rate by 25 basis points (bps) on July 12th but elected to present a hawkish pause on September 6th. The Canadian economy has weakened and price pressures are relieving as a result of the BoC’s past increases in interest rates as well as slower foreign demand. However, the progress towards price stability is slower than the Governing Council expected and they are prepared to further its policy of quantitative tightening if they deem it necessary. The BoC remains committed to restoring price stability in Canada.

In this quarter, the unemployment rate in Canada remained stable at 5.5%, indicating the resilience in the job market. High mortgage rates and low inventory levels contributed to the cooling of the housing market.

Portfolio Review

In the quarter, the Energy sector posted positive gains to the portfolio. Real Estate and Consumer Staples, despite generating negative contributions, still performed better than other sectors. On the other hand, Financials, Information Technology and Consumer Staples were lagging behind.

For the period ended September 29, 2023, the top performers in the Underlying Index were Cameco Corporation, Cenovus Energy Inc., and Imperial Oil Limited, gaining 29.89%, 26.31% and 24.23%, respectively.

These energy stocks are the outperformers thanks to elevated energy prices triggered by tighter global supply and stronger demand. Sticky inflation, increased cost and higher interest rates for longer have posed challenges in operating environments for many of the aforementioned laggards.

Outlook and Positioning

The next year in the Canadian economy will be defined by whether the BoC succeeds in taming inflation amidst a multitude of conflicting pressures. On one hand, higher rates for longer risk inducing a recession, but elevated oil prices act as a ballast for Canada’s oil-export-reliant economy. Additionally, higher rates for longer risk further pressure on an already battered housing sector. However, cutting rates too soon could risk re-igniting runaway inflation. How this balance is managed and how the economy digests the consequent impact on prices will have a significant impact on the trajectory of earnings and valuations across the board.
The investment objectives of the Horizons Canadian Large Cap Equity Covered Call ETF ("CNCC") (formerly Horizons Enhanced Income Equity ETF ("HEX")) were changed following receipt of the required unitholder and regulatory approvals. The new ticker began trading on the TSX on June 27, 2022. For more information, please refer to the disclosure documents of the ETFs on www.HorizonsETFs.com.

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