

Market Overview

In the first quarter (Q1) of 2023, the Bank of Canada (BoC) raised the interest rate by 25 basis points (bps) from 4.25% to 4.50%. The decision was based on somewhat favourable decreases in inflation and retail spending, and a tight labour market maintaining concerns. Subsequent events, such as the Silicon Valley Bank (SVB) failure, led to higher volatility and heightened fears of an upcoming recession.

Month-over-month, the Core Consumer Price Index, which is used to measure inflation, increased during the quarter. The numbers reported were overall lower than expected, which created some hope that inflation had begun to slow down. In addition, the month-to-month Core Retail Sales Index, a pace indicator of the economy and consumer spending, decreased in the first two months by -0.6%, then increased by 0.9% in March, creating some mixed results while supporting the decision of the BoC.

Despite the fact that inflation and spending numbers were lower than expected, 2023 started with higher-than-expected job creation in Canada. The unexpected growth led to increased volatility during the quarter, as labour market uncertainty emerged.

Later in the quarter, optimism surrounding China's reopening faded in the face of the hawkish drift in central bank policy. U.S. crude oil inventories were much higher than expected in Q1 due to a weaker demand than expected. The combination of this negative sentiment, and the SVB collapse in March increased the probability of a recession. Leading crude oil prices, as measured by the 1-month NYMEX® West Texas Intermediate crude oil futures, dropped by -5.72% in the quarter.

On the other hand, Natural gas prices, as measured by the 1-month NYMEX® natural gas continuous futures contract, dropped by -45.85% during Q1 2023; decreasing from the closing price of \$4.10 per 10,000 million British thermal units (mmBtu) in 2022 to \$2.22 per mmBtu by the end of March 2023. This was mostly due to warmer temperatures during the winter months and the beginning of spring in Europe, leading to a decrease in demand for natural gas.

The U.S. stopped releasing more barrels of oil from its Strategic Petroleum Reserve, and the spread between Western Canada Select oil prices, and West Texas Intermediate prices, decreased from a \$27.75 discount per barrel at the end of the last year, to \$14.15 by the end of the Q1 2023. The spread narrowing for the first time since Russia invaded Ukraine, benefitted Canadian oil companies.

Quarter in Review

Due to geopolitical tensions, a tight labour market, sticky inflation, and uncertainty regarding interest rates, market volatility remained high during Q1. Although this has been detrimental to stock prices and has contributed to instability, it has benefitted the covered call strategy due to the call options premiums rising as a percentage of Canadian oil and gas stock prices. This has been reflected through ENCC's higher yield during this period and the reduced volatility the ETF has generally displayed, compared to that of each stock.

ENCC Quarterly Commentary

Horizons Canadian Oil and Gas Equity Covered Call ETF

Q1 2023

During Q1 2023, Imperial Oil Limited (IMO) stock price increased by 4.22%, while Canadian Natural Resources Limited (CNQ), Suncor Energy Inc (SU), TC Energy Corporation (TRP), Enbridge Inc (ENB), Pembina Pipeline Corp (PPL), Cenovus Energy Inc (CVE), and ARC Resources Ltd (ARX) stock prices dropped by 0.53%, 2.31%, 2.61%, 2.95%, 4.74%, 10.24%, and 16% respectively. Keyera Corp (KEY) remained flat during the quarter.

Imperial Oil Limited (IMO) was the strongest performing company this quarter. This was a result of the company beating earnings per share (EPS) by 12.47%, and the approval of a \$720 million project to construct the largest renewable diesel facility in Canada. The project, which will use locally sourced vegetable oils and low-carbon hydrogen to produce a biomass-based fuel, will diversify its petroleum-based portfolio.

On the other hand, Tourmaline Oil Corp (TOU) was a negative performer, as it missed both revenue by \$686.49 million and EPS by \$2.07 in the latest earnings. This was partly due to the fact that the company engages in the exploration, development, and extraction of both crude oil and natural gas. Therefore, although oil slightly dropped during the quarter, the massive drop in natural gas prices by 45.85% in Q1 affected TOU stock price performance the most.

Outlook and Positioning

Each month, options are dynamically written on the equities in the portfolio of ENCC. ENCC's monthly distributions are not fixed, but vary as the premiums generated from covered call writing are earned and passed through, and will change with fluctuations in implied volatility and the duration of time to option expiration. Distributions also vary based on the timing of the dividends received from the underlying securities in ENCC's portfolio during the period.



The investment objectives of the Horizons Canadian Oil and Gas Equity Covered Call ETF ("ENCC") (formerly Horizons Enhanced Income Energy ETF ("HEE")) 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.

Commissions, management fees and expenses all may be associated with an investment in Horizons Canadian Oil and Gas Equity Covered Call ETF ("ENCC" or the "ETF") managed by Horizons ETFs Management (Canada) Inc. The ETF is not guaranteed, its value changes frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETF. **Please read the relevant prospectus before investing.**

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