

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.

The Solactive Equal Weight Canada Oil & Gas Index returned 11.14% during Q3. A barrel of West Texas Intermediate (WTI) crude peaked at USD 95 during the quarter due to global supply being tight along with strong demand.

Portfolio Review

For the period ended September 29, 2023, the top performers in the ETF's portfolio were Cenovus Energy Inc., Imperial Oil Limited, and ARC Resources Ltd., gaining 26.31%, 24.23% and 23.65%, respectively.

TC Energy Corp was the worst performer this quarter returning -11.02%. In July, the markets reacted negatively after the company announced its plans to spin off its liquids pipeline business into a separately traded investment-grade company.

Enbridge also sold off in Q3 after announcing a large acquisition in the quarter; In September, Enbridge announced a deal to purchase three natural gas distribution companies from Dominion Energy Inc.

Outlook and Positioning

Looking forward, Canadian oil producers will also benefit when the Trans Mountain pipeline expansion project begins to operate (expected in the late first quarter of 2024); this is a pipeline between Alberta and British Columbia which is estimated to triple the flow of oil between the provinces.

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.

ENCC Quarterly Commentary

Q3 2023

Horizons Canadian Oil and Gas Equity Covered Call ETF (ENCC)



HORIZONS ETFs
by Mirae Asset

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.

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