

Market Review

Canadian equities, as measured by the S&P/TSX Capped Composite Index, experienced a return of 12.05% in 2023. The significant positive performing sectors were Information Technology and Real Estate, while the only negative contributing sectors were Communication Services and Materials.

The Bank of Canada ("BoC") raised the interest rate by 25 basis points in three out of eight meetings in 2023, leaving the overnight rate at 5% by the end of the year. In their meeting in December, the BoC decided to hold the overnight rate as they highlighted a cooling labour market where job creation has been slower; the unemployment rate slightly increased to 5.5% as of September 2023. The BoC also commented on the improvement in inflation, stating that the slowdown in the Canadian economy was reducing inflationary pressures. However, the BoC was still concerned about the risks of the inflation outlook and was willing to raise the policy rate further if necessary.

The Canadian Consumer Price Index rose 3.1% year-over-year. This was a volatile year for oil, which was driven by geopolitical turmoil and uncertainties about oil output levels by producers around the world. The price of oil, as measured by West Texas Intermediate, experienced a return of -6.7% for the year finishing at US\$72 per barrel; it reached a low of US\$67 and peaked at US\$93 per barrel.

Gold prices rose by 12% breaking the US\$2,100 level this year and ending the year at \$US2,065 per ounce. This was largely driven by increased gold buying from central banks, which collectively bought approximately 800 tonnes of gold over the first three quarters of the year.

In contrast with 2021 and 2022, the Canadian energy sector had a less impressive 2023 with the Solactive Equal Weight Canada Oil & Gas Index returning 11.31%. A contributing factor was energy inputs experiencing flat to negative returns and bearish macroeconomic indicators putting pressure on oil demand in particular, as it hit its lowest point since December of 2021. Furthermore, geopolitical risk in the form of the Israel-Hamas conflict introduced additional volatility to the price of oil in the last quarter of the year.

Quarter in Review

During Q4, the top three performing stocks were Pembina Pipeline, TC Energy, and Enbridge with total returns of 13.37%, 12.80%, and 7.94% respectively. The bottom three performing securities were Cenovus Energy, Tourmaline, and Imperial Oil with total returns of -21.44%, -11.20%, and -9.19% respectively.

Outlook and Positioning

With the BoC holding its target for the overnight rate at 5%, with the bank rate at 5.25% and the deposit rate at 5% during the December 2023 meeting, the BoC's Governing Council is continuing its policy of quantitative tightening.

As economic growth stalled in the middle quarters of 2023 and Real GDP contracted by 1.1% in the third quarter, initial indicators for Q4 suggest economic growth may remain weak as higher interest rates continue to hold back spending, potentially leading into an early 2024 recession.

However, having led the developed markets in pausing their interest rate hiking cycle, it is possible that the BoC could lead the world and be the first developed nation to cut rates in 2024. These projected interest rate cuts, combined with a continuation in the easing of core inflation from the 3.1% level in October 2023, may lead to a rebound in stocks (notably financials and utilities), bonds, and the economy starting mid-to-late 2024.

Into 2024, the covered call strategy is favourably positioned to potentially provide value from a yield, hedging and upside capture perspective in the current environment. Each month, call options are dynamically written on the underlying stocks held by ENCC. Option yields for the Canadian oil and gas companies trended lower in 2023 versus the prior year. Each month, the fund generally writes out-of-the-money options. The monthly premiums generated for the year showed consistency and may remain stable into 2024.



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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