

Market Review

The S&P 500 started the third quarter (Q3) of 2022 on a positive note. At the time, investors generally believed that the Federal Reserve (Fed) would become less hawkish shortly, which would help support the economy and the stock market. As a result, the S&P 500 rallied in July and into mid-August. Despite the economy showing increasing signs of slowing, the Fed maintained its hawkish stance throughout the third quarter to fight inflation.

Mid-way through the third quarter, investors started to realize that the Fed was strongly committed to fighting inflation by raising its Federal funds rate and a quantitative tightening program. As a result, investors soured on the prospects of the stock market, and the stock market turned lower in the second half of August and into September.

In Q3, the Canadian stock market underperformed the S&P 500 from July to mid-August. The S&P 500 was rallying and outperformed in the second half of August and into September.

The energy sector, which has a higher weight in the Canadian stock market versus the S&P 500, was volatile in Q3. Despite the Energy sector performing poorly in the second half of August and September, the Canadian stock market managed to outperform the S&P 500 at this time.

Quarter in Review

At the beginning of July, the Horizons Seasonal Rotation ETF (HAC) was substantially invested in equities to take advantage of the strong seasonal trend of the stock market performing well in the last few days of June until mid-July. This seasonal trend is predicated on the tendency of investors to push the stock market higher as second-quarter earnings are about to be released at the end of July. HAC reduced its equity positions in the first half of July, based on seasonal trends.

In the early stages of Q3, HAC maintained positions in the defensive sectors of the stock market that tend to outperform seasonally in the summer months. These sector positions included health care, consumer staples, and utilities. In addition, HAC maintained positions in gold bullion and U.S. government bonds that tend to perform well in the third quarter. HAC also held a large position in cash.

Outlook and Positioning

Historically, the stock market tends to perform well in the fourth quarter of the year. Over the long term, November and December have been the strongest two contiguous months of the year.

The stock market is expected to continue to face challenges in the fourth quarter. Inflation is expected to remain high, although it could start to show some signs of moderating. In addition, the economy is expected to slow. Despite the challenges, investors could shift to a more positive outlook for the stock market as they anticipate that the Fed will start to slow interest rate hikes, which could support the economy and a higher stock market.

On a seasonal basis, the sectors of the stock market that tend to perform well in the fourth quarter include the industrial, materials,



HAC Quarterly Commentary

Horizons Seasonal Rotation ETF

Q3 2022

Canadian banks, and technology sectors. Historically, a lot of the cyclical sectors of the stock market tend to start performing well in late October. This trend coincides with the stock market's general seasonal trend of bottoming late in October. In addition, the small-cap sector and the U.S. financial sector tend to start a period of seasonal strength in mid-December.

The risk to the stock market in the fourth quarter of the year is largely dependent on how the Fed navigates the inflation and growth numbers that are expected to be released. The Fed has recently raised its federal funds rate and has embarked on a quantitative tightening program, selling bonds into the market. If the economy continues to slow at the same time as the Fed's tight monetary policies are implemented, it's possible the economy could slip into a recession.

The fourth quarter is expected to be challenging for the stock market, but any weakness is expected to present a good background for strong performance.



Commissions, management fees and expenses all may be associated with an investment in the Horizons Seasonal Rotation ETF ("HAC" 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 ETF may have exposure to leveraged investment techniques that magnify gains and losses and which may result in greater volatility in value and could be subject to aggressive investment risk and price volatility risk. Such risks are described in the prospectus. The prospectus contains important detailed information about the ETF. **Please read the prospectus before investing.**

Certain statements may constitute a forward-looking statement, including those identified by the expression "expect" and similar expressions (including grammatical variations thereof). The forward-looking statements are not historical facts but reflect the author's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking statements. These forward-looking statements are made as of the date hereof and the authors do not undertake to update any forward-looking statement that is contained herein, whether as a result of new information, future events or otherwise, unless required by applicable law.

This communication is intended for informational purposes only and does not constitute an offer to sell or the solicitation of an offer to purchase exchange traded products (the "Horizons Exchange Traded Products") managed by Horizons ETFs Management (Canada) Inc. and is not, and should not be construed as, investment, tax, legal or accounting advice, and should not be relied upon in that regard. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies. These investments may not be suitable to the circumstances of an investor.

All comments, opinions and views expressed are generally based on information available as of the date of publication and should not be considered as advice to purchase or to sell mentioned securities. Before making any investment decision, please consult your investment advisor or advisors.