HAC Quarterly Commentary

Horizons Seasonal Rotation ETF

Q4 2022

Market Review

The S&P 500 started the fourth quarter (Q4) of 2022 on a positive note, as investors were of the mindset that the U.S. Federal Reserve (Fed) was going to pause federal funds rate increases in the near future. The cyclical sectors of the stock market, including the industrial and materials sector, generally outperformed the S&P 500. Growth sectors including the technology and consumer discretionary sectors underperformed as investors were concerned that the economy was on a path of slower growth. The defensive sectors of the stock market, including the utilities, consumer staples, and healthcare sectors performed well in Q4 as Investors nervous that recent gains were tentative were attracted to defensive sectors. The S&P 500 finished the fourth quarter with a negative performance in December.

The Canadian stock market, S&P/TSX 60 Index, started Q4 on a positive note with a rally in October. The Canadian banking sector performed well in October and November. As Canadian banks started to release full-year earnings in late November, they started to underperform the S&P/TSX 60 Index. The energy sector performed well in Q4, helping to move the Canadian stock market higher. Despite a positive performance from the Canadian stock market in the final quarter of the year, it lagged behind the U.S. stock market.

Quarter in Review

At the beginning of Q4, in October, HAC shifted its asset position to include a greater equity allocation, and by the end of October was fully invested in equities. HAC benefited from its equity allocation as the stock market bottomed in early October and rallied into year-end. In October, HAC took positions in the industrials, materials, Canadian banking, and technology sectors. Later in the fourth quarter, HAC reduced its positions in the technology, industrial, and materials sectors. In December, HAC entered positions in gold bullion and silver bullion.

Outook and Positioning

The first quarter of the year historically tends to be strong in the stock market. Investors continue to believe that the Fed will have to back off its rate-tightening cycle. If the Fed does pause its rate hikes, this could help support a stronger stock market. So far, the Fed has been adamant that it needs to keep raising rates as the fight against inflation is not over. Nevertheless, investors are still anticipating a less hawkish Fed sometime in early 2023.

The cyclical sectors of the stock market, including industrials, materials, metals and mining, financials, and others, tend to perform well on average in the first quarter of the year. The expectation of cyclical sectors performing well in the first quarter is largely dependent on investors' expectations for economic growth. Despite some signs of a slowing economy, it is still expected to grow in Q1 of 2023, helping to support the performance of the cyclical sectors of the economy.

The risk to the stock market in the first quarter is largely dependent on economic growth. Although Gross Domestic Product (GDP) growth is fairly stable, if it starts to decrease at a faster rate than expected, investors could shift their focus to the implications of slower growth on the market. This could negatively impact the stock market, especially if the Fed maintains a tight monetary policy. In recent months, the Consumer Price Index (CPI) rate of inflation has been high but is falling. If inflation starts to pick up again in the short term, this could affect the stock markets negatively, as it could force the Fed to maintain a tight monetary policy. Despite the risks in Q1, the stock market is still expected to be positive at the end of the quarter.