

HAC Quarterly Commentary

Horizons Seasonal Rotation ETF

Q4 2023

Market Overview

The S&P 500 started the fourth quarter (Q4) of 2023 on a negative note, as investors were concerned that the U.S. Federal Reserve (Fed) was implementing monetary policy that was too tight and could lead the economy into a recession. In late October, investor attitudes shifted as investors perceived that the Fed had a high probability of cutting its federal funds rate in early 2024. As a result, the stock market rallied strongly into the year-end. In late October, growth sectors including the Technology sector performed particularly well. Starting in November, the Technology sector started to show some weakness relative to the S&P 500 and some of the cyclical sectors of the stock market, including the Industrials and Materials sectors started to outperform. The expectation that the Fed was going to start cutting its federal funds rate in early 2024, helped to lower interest rates. As a result, gold started to perform well in early October.

The Canadian stock market, the S&P/TSX 60 Index fell in the second half of September, into late October. It rallied strongly starting in late October and rallied into the end of the year. Canadian banks released their Q4 earnings in late November. Investors liked the combination of dividend increases by some of the banks and forward projections. As a result, Canadian banks performed well from December to the end of the year. The Energy sector in Canada lagged the Canadian stock market as the price of West Texas Intermediate Crude Oil declined from late September into yearend. Overall, the Canadian stock market slightly underperformed the U.S. stock market in Q4.

Quarter in Review

At the beginning of Q4, HAC held a large position in cash and cash equivalents. During October, HAC started to take positions in the Technology and Canadian Banking sectors. In the last week of October, HAC started to substantially increase its equity positions in accordance with seasonal trends. By the end of October, HAC was substantially invested in equities and held positions in the S&P 500 and S&P/TSX 60. HAC also took positions in the Industrials, Materials and Consumer Discretionary sectors.

Outlook and Positioning

Historically, the first quarter of the year tends to be seasonally positive for both the Canadian and U.S. stock markets. Late in 2023, the Technology sector started to show some weakness relative to the S&P 500. Investors will be watching for the Technology sector to once again perform well relative to the broad market. After a strong performance by the Technology sector in 2023, it is possible that investors could be shifting their attention to other parts of the market. January tends to be a seasonally strong month for the stock markets, February tends to be one of the weaker months of the year and March tends to be one of the better months.

The risk to the stock market is if the economy slows down faster than expected, increasing the probability of a recession. A lot of pundits called for a recession in 2023, but it never materialized. As a result, investors have decreased their expectations for slowing economic growth. This makes the stock market vulnerable if an economic slowdown were to materialize. On balance, despite the headwinds, the stock market is expected to end the first quarter of 2024 moderately higher.



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HAC is an alternative mutual fund within the meaning of National Instrument 81-102 Investment Funds (“NI 81-102”) and is permitted to use strategies generally prohibited by conventional mutual funds, such as the ability to invest more than 10% of its net asset value in securities of a single issuer, the ability to borrow cash, to short sell beyond the limits prescribed for conventional mutual funds and to employ leverage of up to 300% of net asset value. These strategies will only be used in accordance with the investment objectives and strategies of HAC. HAC will comply with all requirements of NI 81-102, as such requirements may be modified by exemptive relief obtained on behalf of HAC.

The Manager has a direct interest in the management fees and performance fees of the Horizons Exchange Traded Products, and may, at any given time, have a direct or indirect interest in the Horizons Exchange Traded Products or its holdings.

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