

HAD Quarterly Commentary

Horizons Active Canadian Bond ETF

Q3 2023

Market Overview

During the third quarter (Q3), the Bank of Canada (BoC) and the U.S. Federal Reserve (Fed) acted similarly. They both raised their base rate by 0.25% in July and decided to pause the rate hike in their September meeting. This pause gives them time to assess the delayed impacts of higher interest rates on the economy. One thing is for sure: inflation is way too high for both North American central banks. Persisting high inflation opens the way for higher interest rates for a longer period.

At the end of the third quarter, bond investors were expecting the U.S. base rate to increase by another 0.25% before the end of 2023.

Against this backdrop, bond yields have risen. The rate on a 10-year Canada bond rose from 3.27% to 4.03%. During the quarter, we maintained a longer duration than the index.

Quarter in Review

During the quarter, duration and the curve positioning were the key negative contributors to the value added. At the portfolio level, our relative duration positioning compared to the index (duration deviation) is at around 115%, combined with our positioning for a steeper yield curve exposure, with around 220% duration deviation in the 5-12-year part of the curve. From a sector perspective, the portfolio is positioned to be overweight federal and corporate issues and underweight provincial bonds.

Outlook and Positioning

We cannot rule out further upward pressure on yields and spreads, but some leading indicators are showing tighter financial conditions are beginning to bite. Given the lagged impact of policy tightening we may be approaching a period when bond markets are somewhat more range bound awaiting evidence that inflation pressures are indeed moderating. We remain focused and positioned in a steepened position in the 10-year bucket against the 30-year as the risk-reward is appealing.



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Please read the relevant prospectus before investing.

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