HAD Quarterly Commentary

Horizons Active Canadian Bond ETF

Q4 2023

Market Overview

In the fourth quarter (Q4), both the Bank of Canada ("BoC") and the U.S. Federal Reserve ("Fed") decided to maintain their key rates. This strategy enables them to better assess the delayed effects of their monetary policy on the economy and inflation trends. Indeed, inflation is slow to return to the banks' 2% target. However, central banks are seeking to avoid triggering too deep a recession.

At the end of Q4, investors were generally expecting the U.S. key rate to fall from 5.25% to 3.75% over the course of 2024. During the quarter, this optimism caused Canadian bond yields to fall by around 1%. Against this backdrop, bond yields fell significantly during the quarter. The rate on the 10-year Canada bond fell from 4.03% to 3.11%.

Quarter in Review

During the quarter, duration positioning and spreads were key positive contributors. At the portfolio level, our relative duration positioning compared to the index (duration deviation) is at around 110%, combined with our positioning for a steeper yield curve exposure, with around 220% duration deviation in the 5 to 12-year part of the curve. From a sector perspective, the portfolio is positioned to be overweight by federal and corporate issues and underweight by provincial bonds.

Outlook and Positioning

The Sub-Advisor 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 in fact moderating. HAD remains focused in a steepened position in the 10-year bucket against the 30-year as the risk reward is appealing.