

# HAF Quarterly Commentary

Horizons Active Global Fixed Income ETF

Q3 2023

## Market Overview

During the third quarter of 2023 (Q3), the global bond market had to align itself with the tone of Central Banks in their fight against inflation. Yields across the globe therefore climbed significantly throughout the period. U.S. 10-year yield rose by 74 basis points (bps) to end the quarter at 4.57%. The market is adapting to the “higher for longer” narrative.

On the credit side, signs of economic resiliency gave some sort of relief at the beginning of the quarter, but September erased all the gains on the credit side as signs of cracks and weaknesses started to appear in the economy.

After hiking in July, the U.S. Federal Reserve (Fed) decided to hold in September to better assess the impact of monetary policy down the road. The European Central Bank (ECB) hiked twice during the quarter and the Bank of England decided to keep its policy unchanged at its last meeting.

Central Banks in Brazil and Chile started cutting rates as inflation is cooling in the region.

## Quarter in Review

Our active approach to security selection, curve and duration has proven to be a support during this period of rising interest rates.

During the quarter, we increased duration in USD when the 10-year U.S. yield reached 4.50% and in Europe through sovereign and corporate issuers to better endure a risk-off scenario. We have been trimming our exposure to high yield to add to high-quality issuers in the Additional-Tier 1 (AT1) space.

Sector-wise, on the investment grade front, we still favour consumer, non-cyclical issuers operating in the food industry, as well as issuers in the communication services industry. We remain selective with high-yield issuers and our sector exposure is concentrated in consumer non-cyclical, energy, and consumer discretionary, where spreads are already reflecting the possibility of an economic slowdown. We have started to gradually reduce our exposure to AT1 to be slightly more defensive.

On the emerging market front, we remain overweight Latin America considering our expectation of the start of the easing cycle for central banks combined with attractive positive real interest rates. On the hard currency front, we remain overweight Colombia. We also favour Mexico in the region.

## Outlook and Positioning

The global bond market offers a lot of opportunities, and the asset class is attractive considering higher rates globally. 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. The strategy currently generates a yield of 7.69% combined with a duration of 5.36 years with an overall investment grade profile. Considering the economic outlook, the strategy is well positioned to encounter various market environments considering its strong yield carry protection provided by an overall diversified investment grade portfolio.

# HAF Quarterly Commentary

Horizons Active Global Fixed Income ETF

Q3 2023



Commissions, management fees and expenses all may be associated with an investment in the Horizons Active Global Fixed Income ETF ("HAF" 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 prospectus contains important detailed information about the ETF. **Please read the relevant 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.