# HGY Quarterly Commentary

## Horizons Gold Yield ETF

Q2 2022

### Market Overview

Gold traded in close tandem with broader risk markets in the second quarter of 2022 as volatility continued unabated in most asset classes. April began with a severe and unrelenting selloff that brought some major U.S. indices down by almost 18% in 40 days. By mid-May, the S&P 500 came close to realizing a closing bear-market print of almost -20% below the all-time highs reached in 2021. A subsequent brief two-week relief rally then gave way to selling once again as the Index reached new lows and closed officially in bear market territory halfway through June. The Russia-Ukraine war continues to rage on, with a resulting inflationary effect on commodities, energy, and grain pricing in particular. Gasoline and diesel prices posted record highs as constrained refinery capacity kept prices high at the pumps. Consumer confidence plunged as inflationary woes joined with economic slowdown worries in the face of rapidly rising rates. Some large big-box retailers missed earnings as supply chain concerns were evident for even the most powerful of retail names. Durable goods orders, the mainstay of economic lockdown revenue, dried up considerably for retail outlets that had aggressively pushed to bolster inventory levels, only to face a sharp drop-off in demand.

Realized volatility soared in May and June as panicked investors found no place to hide. Bonds and risk assets alike plunged by measures not seen in decades in some cases. The aggregate global bond basket suffered an almost inconceivable -20% drop from the highs of 2021. The U.S. Federal Reserve (Fed), not long ago in support of assets in general, had become a foe of asset inflation. Mortgage rates soared as rate hikes sucked liquidity from the system. This new picture roiled investors. For gold, however, the story has been one of a safe haven in this recent backdrop. It has held relatively steady, performing well as a flight to safety, on a relative basis, to risk assets. While not exactly shining to the upside, it has well outperformed most other assets, including Bitcoin. Despite a very strong U.S. dollar that has experienced considerable flows thanks to an aggressively hawkish Fed, gold remains above long-term support dating back to early 2018.

### Quarter in Review

A challenging world growth outlook also remains of paramount concern to investors. Rate hikes and balance sheet tightening in the face of a tapped-out consumer and slowing growth could prove to be challenging for hawkish central banks. De-globalization trends will likely keep upward pressure on inflation and global trade friction. Supply chain and cost challenges, while at the moment excessively stretched, may ultimately find a resting level that is considerably higher than that of recent times. This more entrenched and stubborn pricing, combined with significant debt levels and demographic influences, may prove to ultimately limit the upward trajectory of real interest rates for years to come.

Gold option premiums, broadly speaking, have improved markedly this year over levels observed in the recent fall gold lull. As gold potentially rises, option premiums continue to firm, somewhat, as has been the case historically. We continue to evaluate appropriate coverage and "moneyness" measures for future writes.

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As investors await the next move higher for gold, "clipping the rent" of option premiums may be of some value in generating distributions going forward.  Option premiums may also help to generate better overall yields and contribute to lower volatility relative to the underlying basket without call premiums. The covered call strategy can also potentially reduce the volatility relative to a comparative basket of equities over time.

## Outlook & Positioning

Option premiums were volatile in the quarter and closed higher on balance at the end of the period as market turmoil remained at the forefront for international investors. Risk premiums will continue to be monitored to apply appropriate coverage levels throughout the cycle. Portfolio managers anticipate continued uncertainty surrounding interest rate, pandemic response, supply chain, and economic realities that may continue to keep option premiums more elevated than pre-pandemic levels. The covered call strategy is favourably positioned to potentially provide value from a yield, and upside capture perspective in the current environment.

HORIZONS ETFs by Mirae Asset