

General Market Review

During the first half of 2023, the gold market showed continued signs of recovery. After a strong fourth quarter in 2022, which saw gold prices finish the year nearly unchanged, gold was up nearly 5.2% in the first half of 2023. Behind gold's performance was a relatively stable U.S. dollar and interest rates, event risk hedging, and continued central bank demand.

Some of the early strength can likely be attributed to the stability in the U.S. dollar which has stayed within a narrow band for much of 2023. Starting the year, the first quarter is historically beneficial for gold as it coincides with Lunar New Year festivities in China. Despite a slight setback in February, due to strong job numbers, gold prices remained on an upward trend in March, as the market was impacted by renewed concerns about regional banks in the United States, which led to uncertainty and risk aversion among investors, helping gold prices further. Hitting a peak of 2050 in May Gold fell to close the first six months of the year at 1919.35 up nearly 5.2% for the year thus far.

The gold market outperformed other commodities in 2023. Crude oil prices, as measured by the 1-month NYMEX® West Texas Intermediate crude oil futures, are down 12.0%, and Natural gas prices, as measured by the 1-month NYMEX® natural gas continuous futures contract, down 32.4% during H1 of 2023.

The recovery in the gold market was driven by several factors, including a stable but weaker U.S. dollar, rising inflation expectations, and increasing demand for safe-haven assets amid global economic uncertainty and geopolitical risks. Continued demand from global central banks, as well as demand in emerging markets such as India and China, supported prices. However, volatility remained high and risks such as potential geopolitical tensions, and the potential for a faster-than-expected tightening of monetary policy could impact gold prices shortly.

Portfolio Review

Gold finished the first half of 2023 up nearly 5.2%. Gold options premiums, broadly speaking, trended lower during the first two months of the first quarter (Q1) 2023. In March, however, volatility spiked and ended Q1 2023 near the highs of the year. Following the March spike, volatility drifted lower during Q2, ending the period low for H1. Uncertainty surrounding interest rates, the economy, and geopolitical tensions continue, and volatility levels are higher than they have been historically. In a high-volatility environment, HGY's covered call strategy allows investors to generate higher premiums from the call options sold. If the volatility drifts lower for a sustained period the amount of premiums may be affected in the future. As investors await the next move higher for gold, option premiums generated will continue to offer some value in generating distributions going forward.

Outlook

Just like the end of 2022, Gold finished Q1 2023 on a strong note. Although Q2 Gold retraced slightly from the Q1 highs it still ended the first half of the year up 5.2%. Continued geopolitical uncertainty, physical gold demand from central banks, the impact of the U.S. Federal Reserve pause in June, and cracks in the financial systems could continue to provide tailwinds to the price of gold. While gold is traditionally seen as an inflation hedge, it is also seen as a haven in times of uncertainty. While stock prices were off to a good start in 2023, any weakness in the economy could send stocks lower – and gold has typically outperformed in such a scenario. This current outlook could continue to be beneficial for the covered call strategy, as volatility would remain elevated while prices continue to trend higher.

Each month, options are dynamically written on the equities in the portfolio of HGY. The ETF's monthly distributions are not fixed but vary as the premiums generated from covered call writing are earned and passed through, and will change with fluctuations in implied volatility and the duration of time to option expiration.

HGY Semi-Annual Commentary

Horizons Gold Yield ETF (HGY)

June 2023



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