HRAA Quarterly Commentary

Horizons ReSolve Adaptive Asset Allocation ETF

Q2 2022

Market Overview

The dynamics that gripped global markets in the first quarter of the year accelerated into the second quarter, leading to an intensifying selloff in global sovereign bonds and equity indices. The war in Ukraine raged on, as battered Russian forces pivoted their focus to the east in an effort to establish a "land bridge" between the Russian territory and the Crimean Peninsula, securing access to the Black and Mediterranean seas. The prospects for a diplomatic solution to the crisis in Ukraine appear vanishingly small since the last round of negotiations broke down with no material progress. There is growing concern regarding the availability of grains, and, especially, fertilizers, which may threaten food security across the globe starting in late summer.

Investors were once again laser-focused on the actions, words, and tone emanating from central banks as the abundant liquidity that once flooded global markets – and especially U.S.-based assets – continued to be drained from the system. The U.S. Federal Reserve (Fed) raised rates by 50 basis points (bps) in May, followed by a 75 bps hike in June – the first time in three decades – and signaled an aggressive pace of monetary tightening in the coming months. Quantitative Tightening (QT) also began in June and despite the expected bear steepening of the curve, rising risks of a hard economic landing drove the yield curve to flatten.

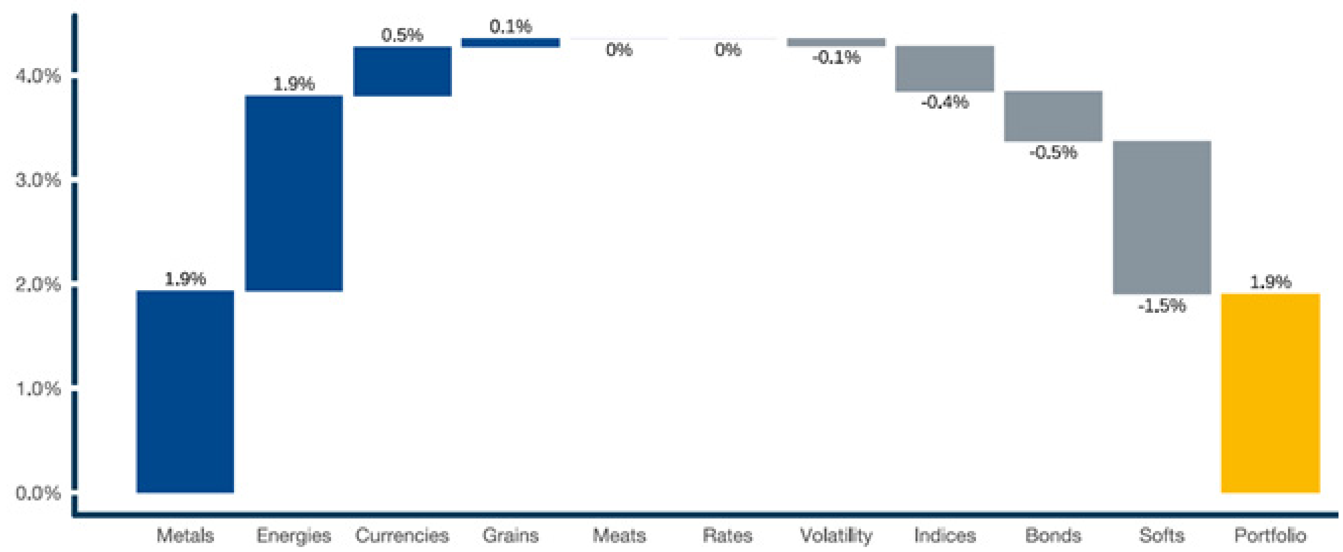
Across the Atlantic, European Central Bank officials have suggested that a 50 bps increase might be necessary to contain inflationary pressures – with Germany seeing its highest price increases since 1963 – as pressure mounted for an end to Europe's ultra-loose monetary policy. Perhaps the most shocking claim came from the Bank of England Governor's candid admission that policymakers have been left "helpless in the face of inflation."

The government bond sell-off intensified, particularly in Europe. The German 30-year Buxl declined by 18 percent, while 10-year bonds in Canada, France, Germany, Italy, the UK, and the U.S. fell between 3 and 9 percent. Global equities also suffered steep losses, led by double-digit declines in the U.S., Canadian, Australian, and German indices, and high single-digit corrections across various European and Asian markets. The U.S. Dollar Index rose by 6 percent as the greenback strengthened against developed and emerging market currencies alike; with smaller losses in the Canadian Dollar and Swiss Franc, larger for the Aussie and Kiwi Dollars, British Pound, and especially the Japanese Yen. Commodities endured losses, especially in June as recession fears grew. Metals were the hardest hit, with large losses in copper and silver. Losses in agricultural markets were led by cocoa, wheat, cotton, and corn. Energies were down in June but still positive in the quarter, led by 20 to 30 percent rises in heating oil, gasoil, and RBOB gasoline, though UK natural gas futures fell by 53 percent.

Quarter in Review

The Adaptive Asset Allocation strategy offers exposure to a global risk parity "beta" core stacked with an active macro trading "alpha" strategy. Losses on the risk parity strategic core were more than compensated for by gains in the alpha overlay, especially in April.

Figure 1. HRAA Performance Attribution – Q2 2022



Blue: positive performance, Grey: negative performance, Yellow: overall portfolio performance

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Source: ReSolve Asset Management Inc. Results may differ due to rounding. Performance is expressed in CAD. Strategy attribution is a best efforts approximation, net of all applicable borrowing costs, fees and fund accruals for the period. Indicated returns of one year or more are annualized.

Metals made the largest positive contributions to the portfolio, primarily from short copper. Shorts in silver and platinum were also profitable, while long gold detracted. Energies were a close second, with gains well-distributed across longs in crude oil, natural gas, and gasoil, in that order.

Currencies also offered opportunities, most notably through shorts in the Japanese Yen, Euro, and British Pound against the U.S. dollar.

Grains were marginally positive contributors, with early gains from longs in bean oil, corn, wheat, and soybeans moderated somewhat as prices declined, especially in June.

Equities had a marginally negative contribution, with a short in the S&P 500 offsetting some of the losses from long exposures to Aussie 200 and European indices. Active trading on the S&P/TSX 60 led to a profitable short and compensated for losses earlier in the quarter.

Sovereign Bonds saw losses primarily from longs in German 30-year Buxl and Euro-OAT, partially compensated from profitable shorts in German 10-year Bunds and U.S. 5-year Treasuries.

Softs were the largest detractors, led by longs in sugar, cotton, and cocoa.