

HSL Quarterly Commentary

Horizons Active Floating Rate Senior Loan ETF (HSL)

Q2 2023

Market Overview

In the second quarter (Q2) of 2023, term loan issuance slowed as turbulence from the demise of two regional U.S. banks in March reduced risk appetite among lenders. Demand recovered in June, however, and total loan issuance stands at USD 161.3 billion year-to-date, compared to USD 191.3 billion in the first half of 2022. Credit spreads widened sharply during April and May, but recovered in June to finish the quarter within 5 basis points (bps) of their tightness for the year. Signs of stress are expected to increase over the next several quarters as lower-rated and more cyclical borrowers are starting to struggle with these much higher interest rates and slowing in the manufacturing side of the economy. Strategists continue to forecast an increase in default rates over the next two years.

Demand for bank loans remained muted as a total of USD\$ 55.3 billion in Collateralized Loan Obligations (CLOs) were priced in the first half of the year as compared to USD 73.1 billion for the same period in 2022. Retail demand continues to be absent as loan funds have continued to see significant outflows totaling USD 18.5 billion year-to-date, compared to inflows of USD 16.5 billion for the same period last year.

Quarter in Review

Volatility in credit markets continued in the second quarter, with a notable sell-off in risk during the April/May period followed by a sharp recovery in June. The Credit Suisse Leveraged Loan Index posted its fourth consecutive gain, rising 3.4% as higher rates and improving credit spreads had positive impacts on the market.

Lower quality loans, issued by borrowers rated B, CCC, and lower, continued to outperform higher quality loans, rated B+, BB, and higher, over the quarter after recovering from a sharp reversal in April and May.

LIBOR ceased to be quoted as a benchmark as of June 30 and most loans have been converted to a SOFR-based benchmark, although there remain a few stragglers. We expect conversions to complete by the end of Q3.

Outlook and Positioning

The U.S. Federal Reserve (Fed) raised rates by 0.25% in May, but elected to pause in June, leaving the target Fed Funds rate at 5% to 5.25%. A further increase of 0.25% is widely expected in July with markets now expecting that another 0.25% may be required in September.

Loan interest rates continued to be re-set upward during the quarter, helping to move the Fund's total yield higher. The outlook for the remainder of 2023 remains mixed as a decelerating economy, higher interest costs, and narrowing profit margins will provide headwinds for corporate performance. In addition, loan defaults have begun to rise from extremely low levels. The HSL remains positioned in higher quality loans and bonds and we expect to remain defensively positioned for the balance of the year.

HSL Quarterly Commentary

Horizons Active Floating Rate Senior Loan ETF (HSL)

Q2 2023



Commissions, management fees and expenses all may be associated with an investment in Horizons Active Floating Rate Senior Loan ETF (“HSL” 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.