

HSL Quarterly Commentary

Horizons Active Floating Rate Senior Loan ETF (HSL)

Q3 2023

Market Overview

Term loan issuance rebounded sharply in the third quarter of 2023 (Q3) as rising floating rates and investor demand deferred from the second quarter improved the market tone as USD\$122 billion came to market bringing year-to-date issuance to USD\$257.9 billion as compared to USD\$205 billion in the same period in 2022. Total loan issuance stands at USD\$257.9 billion year-to-date, compared to USD\$205B in the first three quarters of 2022. Credit spreads were tighter overall as the quarter ended in response to the market demand and markets stabilizing after the second quarter.

USD\$ 36.5 billion in Collateralized Loan Obligations (CLOs) were priced in the third quarter, bringing the year-to-date total to USD\$91.8 billion as compared to USD\$127.8 billion for the same period in 2022. Retail demand returned to the market, attracted by higher floating rates, reducing year-to-date outflows to USD\$18 billion. compared to inflows of USD\$1.9 billion for the same period last year.

Quarter in Review

The Credit Suisse Leveraged Loan Index posted its fifth consecutive gain, rising a further 3.4% as higher all-in rates and improving credit spreads supported returns.

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.

Positive contributors to performance included Starwood, Pathway Vet and Aramark while CommScope, SNC Lavalin (now AtkinsRealis) and Brookfield detracted.

Outlook and Positioning

The U.S. Federal Reserve (Fed) raised the rates by 0.25% in July, but has indicated a shift to a “wait and see”, data-dependent stance. Loan interest rates continued to be re-set upward during the quarter, helping to move the HSL’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. HSL remains positioned in higher quality loans and bonds and we expect to remain defensively positioned for the balance of the year.

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Q2 2023



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