

Quarter in Review

Yields continued to rise in the second quarter, although at a more moderate pace. As the focus moved from rising rates to a potential economic slowdown, credit spreads widened sharply, with June 2022 being the second-worst monthly total return for high yield bonds since 2008.

Yield spreads between higher-rated and lower-rated high-yield bonds widened out to levels not seen since the height of the COVID-19 pandemic in June of 2020. This spread “decompression” suggests that the market is starting to price in a hard landing for the economy resulting from the U.S. Federal Reserve (Fed) and other central banks raising interest rates too far and too fast. The Fed raised rates twice during the quarter; in May (+0.50%) and again in June (+0.75%). A further increase of 0.75% is widely expected in July.

Geopolitical event risk remains in the headlines and interruptions to food and energy supplies are keeping inflation fears front and center, pressuring central bankers and politicians alike to be seen as “doing something.”

New issue activity during the quarter was almost nil and high yield funds saw large redemptions throughout the period, which kept selling pressure elevated.

Outlook and Positioning

The HYI ETF portfolio will maintain its lower-than-industry average duration exposure as we entered the second quarter, given the rising interest rate environment. Continuing uncertainty around the effects of rising interest rates combined with the ongoing impact of the war in Ukraine will keep volatility measures higher than they have been recently. This leads us to continue to favour above average or improving credit quality for the fund. Overall, the portfolio will reflect defensive characteristics until we get a material widening of credit spreads.



HORIZONS ETFs
by Mirae Asset

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