HYI Quarterly Commentary

Horizons Active High Yield Bond ETF

Q3 2022

Quarter in Review

In the third quarter (Q3) of 2022, government bond yields continued to march higher as central banks globally continued to move policy rates higher. The volatility of interest rates and credit spreads continues to be very high; the final week of the quarter saw some of the sharpest spikes in many years. Credit spread decompression continued to be a theme as higher-rated BB bonds lost less than B and CCC bonds.

The JP Morgan High Yield Index shows earnings for high-yield bonds as having risen 518 basis points (bps) so far this year (or more than doubling), which has led to a near halt to new bond issuance. The third quarter saw a mere US$18.9 billion in issuance, the least since the first quarter of 2009. Year-to-date, issuance totaled US$90 billion, compared to US$484 billion at this point in 2021.

While fears of an economic hard landing persist, the current data available to the market has not yet indicated any notable slowing, and labour markets remain strong. Based on the available information, central banks (led by the U.S. Federal Reserve) are likely to continue raising rates until the end of the year.

Geopolitical events remain on the front burner with the additional instability in the U.K., as well as U.S. mid-term election, and Italian and Brazilian election results all adding to the uncertainty.

Outlook and Positioning

HYI continues to maintain below-average duration exposure as market conditions remain extremely difficult. Although monetary conditions are already very tight, previous interest rate hikes by central banks are far from having fully impacted the economy. Despite this, further hikes are expected over the balance of the year, leading the outlook for 2023 to be poor. As a result, HYI will be running higher than normal cash levels and will maintain its position with higher-rated credits as the market passes through turbulence.

HORIZONS ETFs by Mirae Asset