

Market Review

For 2023, U.S. equities (as measured by the Solactive US Large Cap Index) experienced a return of 27.3%. With no shortage of downward pressure, the bull run that markets ultimately experienced was a welcome sight. The significantly positive performing sectors were information technology and communication services, while the primary detractors from performance in the utilities and energy sectors.

The U.S. Federal Reserve (Fed) raised rates by 25 basis points in four out of their eight meetings as they battled inflation that had previously been described as transitory. Hikes that had been put into place in the previous year finally began to expose cracks in the U.S. banking system as Silicon Valley Bank failed, followed shortly by two more regional banks in March of 2023, putting downward pressure on yields. In contrast, the U.S. May Consumer Price Index report showed that repeated rate hikes had already helped in halving inflation and later job reports suggested that the labour market has begun cooling, driving debates on whether the Fed is succeeding in orchestrating a soft landing. Additionally, the U.S. hit its debt ceiling in January of 2023 leading to a months-long standoff in Congress, which was ultimately resolved in May and may have contributed to Fitch's credit rating downgrade of U.S. government debt from AAA to AA+ in July. Yields had been rising since the regional banking crisis but spiked in response to the debt downgrade, continuing their upward trend into the fourth quarter (Q4). The Fed's decision in November to continue the rate hike pause yet again, alongside some optimistic language about the economy's development, contributed to a broad market rally and downward pressure on long-term yields.

Despite the various sources of downward pressure, general market optimism about the likelihood of a soft landing acted as ballast alongside a tech-driven bull run on the back of the excitement for Artificial Intelligence (AI). This was particularly evident in the later portions of the year wherein the Fed first paused hikes, then eventually signalled the potential of cuts. Simultaneously, the "Magnificent Seven" (Microsoft, Amazon, NVIDIA, Meta Platforms, Apple, Alphabet, Tesla) leading technology stocks carried large-cap equities to undo any losses experienced throughout the year. Given the events of the year, yields experienced their fair share of turbulence as well, quickly rising in early 2023 before a sharp decline during the regional banking crisis. This was followed by a volatile rise to an eventual peak in late October close to (but not quite) 5%, declining down to 4% into early 2024. Despite the turbulence, investors generally approached it with a level of cautious optimism as they navigated 2023's unique series of challenges.

Quarter in Review

LPAY provides exposure to a portfolio of U.S. Treasury securities. It invests in the iShares 20+ Year Treasury Bond ETF (TLT), the Vanguard Long-Term Treasury ETT (VGLT) and the Horizons 0-3 Month U.S. T-Bill ETF targeting a duration over 10 years.

Outlook and Positioning

With the Fed suggesting an end to interest rate hikes at its December 2023 meeting, market attention will shift towards 2024 interest rate cuts, corporate earnings, and the presidential election.

Having maintained its federal funds target range between 5.25% and 5.5%, the Fed has not raised interest rates since July 2023. The market rally that ensued should extend into 2024 for the first half of 2024 as calls for rate cuts increase.

Echoing their 2023 performance, the Magnificent Seven should continue to outperform the rest of the S&P 500 and contribute heavily to index returns as earnings growth accelerates into the new year. Contributing nearly two-thirds of the S&P 500 performance for 2023, the main uncertainty facing these seven mega-cap stocks revolves around their earnings growth rate and the extent and magnitude of a possible soft landing during 2024.

Potentially tempering the 2024 growth forecast is the uncertainty facing investors with the November U.S. presidential election. According to the Stock Traders Almanac, the S&P 500 has gained 13% in an election year when a sitting president was running for re-election. While President Biden's approval ratings remained low at the beginning of 2024, the potential for new policies tends to impact sentiment leading into the November voting season and may push for a bullish end to 2024.

Into 2024, the covered call strategy is favourably positioned to potentially provide value from a yield, hedging and upside capture perspective in the current environment. Each month, call and put options are dynamically written on TLT. Option yields on TLT trended lower in 2023 versus the prior year. The monthly premiums generated for the year showed consistency in the second half of the year and may remain stable into 2024.



Commissions, management fees and expenses all may be associated with an investment in exchange traded products (the "Horizons Exchange Traded Products") managed by Horizons ETFs Management (Canada) Inc. The Horizons Exchange Traded Products are not guaranteed, their values change frequently and past performance may not be repeated. The prospectus contains important detailed information about the Horizons Exchange Traded Products. **Please read the relevant prospectus before investing.**

The financial instrument is not sponsored, promoted, sold, or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Index and/or Index trade name or the Index Price at any time or in any other respect. The Index is calculated and published by Solactive AG. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards the Issuer, Solactive AG has no obligation to point out errors in the Index to third parties including but not limited to investors and/or financial intermediaries of the financial instrument. Neither publication of the Index by Solactive AG nor the licensing of the Index or Index trade name for the purpose of use in connection with the financial instrument constitutes a recommendation by Solactive AG to invest capital in said financial instrument nor does it in any way represent an assurance or opinion of Solactive AG with regard to any investment in this financial instrument.

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.