

Market Review

During Q3 2023, U.S. equities (as measured by Horizons US Large Cap Index ETF) were down 0.93%. An initial strong start to the quarter was eroded as investors faced the possibility of rates remaining higher for longer.

The U.S. Federal Reserve (Fed) raised the interest rate by 25 basis points (bps) on July 26th but paused the historic rate hike cycle on September 20th. The Fed's dot plot suggested that there may be an additional rate hike later in the year, putting into question when any rate cuts will begin. While inflation remains on a downward trend, a slight upward tick in August added pressure to the Fed's efforts to achieve a soft landing. Additionally, the unemployment rate rose from 3.5% to only 3.8%, indicating the labour market's resilience in the face of repeated rate hikes over the past 12 months.

Further, Fitch Ratings downgraded U.S. sovereign debt in August which contributed to a rise in Treasury yields. This put further downward pressure on equities, particularly large-cap stocks that were weighed on by weakened economic prospects and future valuations.

Portfolio Review

In this quarter, the Energy, Communication Services, and Financials sectors were the largest contributors to portfolio returns. On the other hand, the Information Technology, Consumer Staples, and Industrials sectors were the largest detractors of portfolio returns.

A tighter global supply and stronger demand pushed oil prices higher, which led to energy providers remaining relatively resilient in the third quarter of 2023. This is in contrast with tech firms that faced tougher operating environments in the face of potentially 'higher for longer' interest rates.

For the period ended September 29th, 2023, the top performers in the Underlying Index were Texas Pacific Land Corporation, Splunk Inc., and Marathon Petroleum Corporation, gaining 38.75%, 37.85% and 30.48%, respectively.

Outlook and Positioning

As the year enters its fourth quarter and looks ahead to 2024, the U.S. economy will be shaped by the Fed's success (or lack thereof) in achieving a soft landing. While inflation has begun a downward trend, if the Fed begins to cut rates too early, a robust labour market threatens to reignite an upswing in prices. Additionally, investors continue to cautiously examine the impact that a prolonged period of high rates has on the economy and the severity of, if any, induced recession. This trade-off will have a significant impact on earnings and valuations of U.S. companies across the board, and the economy as a whole.

USCC.U and USCC Quarterly Commentary

Q3 2023

Horizons US Large Cap Equity Covered Call ETF (USCC.U and USCC)



The investment objectives of the Horizons US Large Cap Equity Covered Call ETF (“USCC.U, USCC”) (formerly Horizons Enhanced Income US Equity (USD) ETF (“HEA.U, HEA”)) were changed following receipt of the required unitholder and regulatory approvals. The new tickers began trading on the TSX on June 27, 2022. For more information, please refer to the disclosure documents of the ETFs on www.HorizonsETFs.com.

Commissions, management fees and expenses all may be associated with an investment in Horizons US Large Cap Equity Covered Call ETF (“USCC.U; USCC” 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.**

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