MARCH 2024

MONTHLY UPDATE

Evolve Active Global Fixed Income Fund

EARN seeks to generate positive returns throughout the interest rate and economic cycles, firstly by allocating to different credit asset classes, and also through bottom-up individual security selection.

TSX **EARN**

ETF TICKER: EARN
MUTUAL FUND FUNDSERV CODES: EVF130 (CLASS F); EVF131 (CLASS A)
SUB-ADVISOR: ALLIANZ GLOBAL INVESTORS (ALLIANZGI)

AllianzGI is one of the world's leading active investment managers, managing over EURO 533 billion in assets for individuals, families and institutions (as at December 31, 2023).

Market and Portfolio Review

While the bid for credit remains strong, the interest rate story remains more mixed. Disappointed economic stimulus hopes in China plus dovish testimony from Governor Powell set the early tone and seemed to herald a re-run of the December rally. But as the month wore on and US macro data came in quite strong, we saw a clear fall in the market's conviction that the Fed will start rate cuts as soon as June. This has pushed the US yield curve higher led by longer and intermediate parts of the curve; and towards month end this started to weigh on the rates markets in Europe and the UK too, although here the picture seems more nuanced.

March's credit market felt generally healthy with spreads tightening modestly across most parts of the market. Global equities – to which lower-rated credit is especially sensitive – maintained their march higher with the Euro Stoxx 50 Index, for example, up 4.2%. In spread terms this helped global CCCs to outperform BBBs, BBs and Bs. The credit story this month was one of broad-based strength helped by fund inflows and an active but not overwhelming primary pipeline. At the margin there were a number of single name stressed High Yield situations – notably in the telecoms, finance and packaging sectors – which were a drag on benchmark performance. Our strategy was not exposed to these names. In corporate news, March saw the Q4 earnings season largely brought to a conclusion, and we would characterize this as largely benign for credit, with 76% of the S&P 500 reporters having posted positive earnings surprises compared to a more balanced 44% of Euro Stoxx 600 companies.

Performance and Positioning

March capped a decent quarter of overall returns. The strategy benefited from the overall "risk on" tone in global markets, a continuing healthy bid for corporate credit and our cautious approach to duration. March performance was also buoyed by positive single name credit stories, including credit positive takeover news on one of our UK bank names and on one of our US retailer holdings.

Within the portfolios, the refrain remains the same and trading activity was modest. At the margin we want to boost the spread contribution of returns, but we are wary of the full level of valuations and of adding too much duration risk, when yield curves are shaped as they are and the outlook for growth and rates remains in flux. Against that backdrop we have selectively re-invested maturing bonds and tight trading positions into bank subordinated instruments with good spread and moderate duration to call while also refreshing corporate risk through high quality European high yield issuers both in primary and secondary.

Outlook

The wider market backdrop here is one of potentially higher for longer rates, especially in the US, and resilient economic performance. This is potentially supportive for credit especially as outright yield buyers remain very engaged. But it could start to pose refinancing challenges for weaker issuers if it goes on too long or if investors start to see rate rises as more likely than the opposite. Hence, we think that our multi-asset credit strategy with its significant focus on single name selection, and its allocation flexibility, continues to have merit in these conditions.