

Evolve Active Core Fixed Income Fund

FIXD invests primarily in domestic and international high quality fixed income securities, and to a lesser extent, adding yield or enhancing returns on the portfolio by opportunistically investing in international fixed income securities, emerging market debt, preferred shares, convertible bonds and non-investment grade bonds.

NEO

FIXD

ETF TICKER: FIXD (UNHEDGED)

MUTUAL FUND FUNDSERV CODE: EVF110 (CLASS F); EVF111 (CLASS A)

SUB-ADVISOR: ADDENDA CAPITAL



Active management in Canadian preferred shares continues to be an attractive investment opportunity. Addenda Capital is one of Canada's largest multi-asset investment firms, with over \$34.5 billion in assets under management*, including \$23.2 billion in fixed income and over \$708 million in preferred shares.

Source: Addenda Capital, as at December 31, 2023. *Excludes \$1.9 billion in Advisory assets and \$553 million in Overlay assets.

Market Review

The bond market bounced back in March, with the FTSE Canada Universe Bond Index up 0.49% during the month. However, performance on a quarterly basis was less ideal, with the FTSE Canada Universe Bond Index down -1.22%.

During the quarter, central bank policy in both Canada and the United States remained unchanged in observation of persistent inflation data and labour market strength.

Bond yields rose approximately 35bps across the curve in Q1, as interest rate markets priced out 3 of the expected 6 rate cuts. Data pointed to an uptick in the January and February CPI prints in the U.S., along with still strong labour reports, and a solid first quarter growth trajectory, led markets to push back their expectations for rate cuts which were priced for as early as March of 2024.

Provincial and Corporate credit spreads narrowed during the first quarter as risk appetite remained positive. A \$36.0B of new corporate debt issue supply was met with solid demand as investors continue to find all-in yields attractive.

Portfolio Positioning

Perspective

Growth

Economic growth slows in 2024 but remains positive as domestic demand is supported by a fully employed labour market. In Canada, consumer spending is supported by strong population growth and investment income. Unemployment stays close to cyclical low levels as labour market rebalancing progresses and unit labour costs fall.

Restrictive monetary policy for a longer time increases the risk of recession.

Inflation

Inflation pressure declines in 2024 but achieving central bank targets may prove difficult without further economic deceleration.

Productivity gains in the US provide some relief to inflation pressures with unit labour costs growing below 2%. The US benefits more than Canada which may cause some divergence in the short term.

Policy

Against the backdrop of slowing economic growth, and moderating inflation, central banks will now manage policy with a focus on economic growth.

The Fed has the opportunity for a mid-cycle ease in rates in the first half of 2024, while the BoC faces the risk of further tightening and will likely need to maintain higher rates for most of the year.

Expect continued steady reductions in balance sheet holdings which will reduce liquidity and support for risk assets.

Expectations are for no significant additional fiscal stimulus.

Risks

Uncertainty related to potential changes to monetary policy by central banks, as well as geopolitical risks and US election noise contribute to market volatility.

Fed waiting too long to ease and maintaining high real rates in a non-inflationary growth environment hurts economic growth.

The BoC easing too soon as it follows the Fed while still facing inflationary growth due to a labour market which keeps inflation elevated.

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The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the ETF or returns on investment in the ETF. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

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