TSX EARN

MONTHLY COMMENTARY

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.

As at November 30, 2020

ETF TICKER: EARN (Hedged)
MUTUAL FUND FUNDSERV CODE: EVF130 (Class F); EVF131 (Class A)

SUB-ADVISOR: Allianz Global Investors (AllianzGI)

Allianz Global Investors

AllianzGI is one of the world's leading active investment managers, managing USD 601 billion in assets, including over USD 200 billion in global fixed income (as at March 31, 2019).

PERFORMANCE ANALYSIS:

Risk sentiment remained on a positive footing in November as the much-anticipated US elections saw Joe Biden winning the Presidency and COVID-19 vaccine trials raised hopes of a widespread rollout of vaccinations in early 2021. Macroeconomic data globally suggested a cooling in the pace of recovery that was set in Q3. 10-year US Treasury yields briefly broke out of their recent trading ranges to reach 96bps but ended November at 84bps (4bps lower over the month). There was also a broad-based decline in the US dollar, which on a trade weighted basis fell to 2½ year lows. Euro area composite PMI survey data fell to six-month low following the latest round of lockdown restrictions in a number of countries in the region. However, ECB policymakers continued to send a clear message that financial conditions would remain highly supportive for as long as required in order to support the economic recovery.

Investment grade spreads were 21bps tighter for the month while high yield tightened 100bps, with lower rated issues outperforming strongly. Distressed issues (those trading at >1000bps spread) had a spectacular month, returning close to 14% in USD terms, vs. 3% for non-distressed. Energy issues also had a very strong performance as crude oil prices also managed to break their recent resistance levels, finishing up $5 at just over $45/barrel. The US outperformed Europe in Investment Grade, but the opposite was true in high yield.
In this context our high yield names were the biggest drivers of performance in November, with subordinated financial and consumer cyclical names also contributing significantly.

PORTFOLIO STRATEGY AND ACTIVITY:

It was a busy month for portfolio changes. We added to basic industry, consumer cyclical, and telecoms. We did many individual issuer rotations within financials but kept overall exposure steady. We reduced in government-owned, supermarkets, energy, technology, and utilities.

2021 is likely to be an interesting year with current strong economic indicators being balanced by risks of withdrawal of central bank liquidity and the longer-term impacts of COVID-19. While we do not see a material rates sell-off in the next 6 months, given current levels it makes sense to be in a shorter duration strategy. If the real economy does suffer from COVID-19 impacts, a shorter spread duration non-benchmarked strategy is defensive and allows allocation away from impacted sectors. While a withdrawal of central bank liquidity is unlikely short term; if it does happen longer duration and weaker credits will underperform. We believe that the portfolio is well suited to the uncertainties of 2021, despite a base case view that credit should return close to coupon.