TSX EARN

MONTHLY COMMENTARY

Evolve Active Global Fixed Income ETF

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.

For the month ending February 28, 2019

TICKER: EARN

SUB-ADVISOR: Allianz Global Investors (AllianzGI)

AllianzGI is one of the world's leading active investment managers, managing over $612 billion in assets, including over $36 billion in global fixed income (as at June 30, 2018).

EVOLVE GLOBAL MULTI-ASSET CREDIT:

The environment for risk assets continued to be favourable in February, in a continuation of January's strong rally. There was growing optimism surrounding the apparent progress in US-China trade negotiations, while dovish rhetoric from central banks globally (including talk of the ECB looking at TLTRO extension options) reduced concerns about the downside risks to global economic growth. The Brent crude oil price continued to rise ending the month at $66 per barrel, more than 30% above the December lows. It was mostly a case of the riskier the sector, the stronger the performance in February. By region, Euro issues outperformed the US dollar.

Positive contribution for the month was in part due to credit spread tightening; interest rates were marginally higher over the month. Most of the positive returns came from our high yield allocation, followed by financials and investment grade corporates. Emerging markets delivered a more modest contribution while securitized holdings were marginally negative.

During the month we put some cash to work adding exposure to the Energy and Basic Industry sectors.

OUTLOOK:

Although the credit markets have retraced the downturn of Q4 2018, we believe there is still reason for optimism going forward given the Fed's recent pivot to a patient and dovish stance which is likely to provide support for risky assets in the near-term.

We remain selective on our investment grade corporate exposure given stretched balance sheets, peaking earnings, and continued appetite for debt-fueled M&A. In contrast, the fundamentals of the high yield market remain strong with earnings continuing to grow, interest coverage ratios improving, leverage ratios falling and expectations for default rates to remain low in 2019. Given this positive fundamental backdrop along with a supportive monetary policy globally, we expect a positive return for the asset class in 2019.