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.

For the month ending March 29, 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:

March saw continued deterioration in several economic indicators and some disappointing results in the corporate sector. Developed market government interest rates moved lower in response, with the US yield curve (3m-10y) inverting for the first time since the financial crisis, and German 10-year yields dipping into negative territory. The European Central Bank confirmed a fresh round of support to the banking sector, albeit with stricter conditions then previous rounds. Oil prices ground higher as OPEC reduced production and the US dollar weakened. Equity markets fluctuated but were mostly higher. Credit spreads were mixed, with investment grade marginally tighter but lower quality credits underperforming in both spread and total return terms. By region, European spreads outperformed the US and emerging markets.

The majority of the positive return for the month was attributable to interest rate effects, but we also benefited from tightening spreads thanks to our quality focus. All segments of the portfolio contributed positively, with the allocation to treasuries leading the way. In terms of credit, our financials and high yield allocations were the most beneficial. Energy names accounted for many of the top performers, given the rising crude prices.

During the month we maintained the Fund's overall risk profile. We added some exposure in emerging markets and insurance, while selling a couple of names in communications.

## OUTLOOK:

While growth dynamics are decelerating, central bank dovishness has so far been supportive for credit and we expect rates to remain stable or lower for the near term. Investment grade still requires a selective approach as we see BBB issuers still increasing leverage and pursuing M&A. High yield fundamentals remain broadly favourable, with leverage declining in the US but rising in Europe. Coverage ratios in high yield are improving on both sides of the Atlantic as a result of declining rates.

European credit looks relatively attractive vs. the US, for both investment grade and high yield. Emerging market high yield is also now starting to look attractive; we will be selective and look at specific names in countries with macro tailwinds. Single Bs continue to look attractive but we are gradually rotating into BBs to reflect a more defensive stance.



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