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 November 30, 2018

TICKER: EARN

SUB-ADVISOR: Allianz Global Investors (AllianzGI)

Allianz Global Investors

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).

ECONOMIC REVIEW:

November proved to be another challenging month for credit with spreads widening across most areas. Within Industrials, Energy was the worst performing industry as oil prices declined 30% from their early-October peak. Government rates rallied given the risk-averse backdrop and some relatively dovish comments from the US Federal Reserve Chairman. Interest rate markets are still expecting a 25bps rate hike in December but further hikes beyond that are becoming less likely.

The Fund posted a return of -57bps since its midmonth inception (gross of fees on a hedged to CAD basis). For context, Global High Yield was down 100bps and Global Investment Grade Credit was down 24bps over the same period on a hedged to CAD basis. Given the underperformance of lower-rated securities, it's not surprising that high yield issues represented the majority of the negative contribution in the fund (-43 bps) although they represented approximately 28% of the portfolio. By sector, Financials were the biggest detractor in the fund (-34bps) while representing approximately one-third of the fund as yield curves flattened in the major markets. Our very selective allocations in emerging markets helped us avoid the worst performers and as such losses were limited to 1bp in that category.

OUTLOOK:

We acknowledge that the Fed is seeking to move away from being perceived as on a pre-set path for future rate hikes, as it replaces forward guidance with a greater focus on data dependency. Whilst this makes the Fed's policy outlook potential less predictable, we still believe that the Fed has a desire to continue normalizing policy rates. Whilst the Fed is clearly ahead of most other central banks, we expect the global theme of policy normalization to persist in the coming years.

Trade developments between the US and China will be an important driver of near-term credit market sentiment. Longer term, we continue to expect the gradual reduction in global central bank accommodation to result in a higher level of volatility within the credit markets and thus maintain our strategy of rotating into more defensive sectors and higher quality issuers, whilst being ever mindful of the rise in idiosyncratic risk.

Evolve ETFs
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