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 December 31, 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).

EVOLVE GLOBAL MULTI-ASSET CREDIT:

Volatility picked up across most risky assets in December due to concerns over slowdown in global growth, stability of the trade truce with China, lack of progress on Brexit and stalemate over a partial US government shutdown. Furthermore, while the market was not surprised by the Fed's 25bp hike in interest rates, it was disappointed that Federal Reserve indicated two additional interest rate hikes for 2019 in their median dot plot while the market was expecting a more dovish outcome leading to a further erosion in risk appetite. Meanwhile, oil prices continued their decline falling by 11% due to a rise in inventory levels and poor risk sentiment.

The portfolio in December was moderately helped by our allocation to treasuries and Utilities. Our high yield allocation detracted, as did investment grade Financials, particularly in the floating rate space. Investment grade industrials represented the remaining negative contribution. We maintained our portfolio structure during the month, keeping the meaningful allocation to treasuries and cash.

OUTLOOK:

Although 2018 was a challenging year for credit markets, this followed from two consecutive years of very strong returns for the asset class, which was helped by highly accommodative central bank policies. Heading into 2019, we remain cautious and defensive in our positioning as liquidity continues to be withdrawn and as global growth decelerates, which will place additional pressure on any company with stretched fundamentals. We do expect the global economy to continue to grow in 2019 albeit at a slower rate compared to last year, along with company earnings to grow moderately. Dispersion amongst sectors and issuers was relatively low in 2018, but as we move later into the credit cycle, we expect this to increase, which adds to the case for a flexible and selective approach.

In high yield, refinancing risk remains low in 2019 and default rates are expected to remain near historic lows through 2019. We are comforted that the market has started to reprice the global slowdown we were anticipating, hence providing an opportunity to re-enter the market at these wider levels by investing in select companies where our credit research has visibility in their earnings outlook along with less refinancing risk.

Evolve ETFs
Brookfield Place, 161 Bay Street, Suite 2700, Toronto ON M5J 2S1
416.214.4884 | 1.844.370.4884 | www.evolveetfs.com