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 April 30, 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:

April was a positive month for credit, as economic data in the US surprised to the upside, while inflation remained contained and developed market Central Banks continued to back away from previous policy tightening stances. Government yields rose for the first half of the month before receding again; as a guide, US 2-year rates ended where they began at 2.26%, while 10-year rates were up 10bps to 2.50%. Euro area rates followed a similar pattern with 10-year Bund yields drifting back above 0%.

Credit spreads tightened across most areas of the market, with lower rated issues performing best. By region, Sterling issues performed strongly in spread terms after the UK secured a second, longer Brexit extension; in total return terms this was offset however by rising gilt yields. US and Euro spreads also tightened, but to a lesser extent. Emerging market spreads were around flat overall, but with a wide dispersion in performance by country – Argentina in particular suffered a collapse in market confidence. Oil prices rose on the month, albeit with a sharp correction at the end.

In this context the Fund had another strong month with most of the gain attributable to credit spread tightening and carry, with a mild detraction from rising rates. All credit segments contributed positively, with financials performing best, followed by high yield. Investment grade industrials and emerging markets delivered more modest contributions while securitized were marginally positive. Our small allocation in Treasuries was slightly negative given rising rates.

During the month our headline risk declined modestly, mostly as a function of tightening spreads. We increased the portfolio duration from 2.3 to 3.0y. We put cash to work and added to our exposures in utility, energy and securitized issues, but reduced our exposure to insurance and basic industries.

OUTLOOK:

The stream of quarterly corporate results for the first quarter of 2019 has been broadly satisfactory, and with government rates likely to remain low we do think credit remains an interesting asset class. European issues still look attractive on a spread basis; though the strong growth in US makes investors there less inclined to add overseas risk.

Evolve ETFs
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After very strong returns year-to-date (it has been the strongest start to the year for investment grade, and the best for high yield since the recovery of 2009), we expect to see spreads range-bound, potentially with some profit taking by investors. For the near term, we will remain moderate in our positioning and retain the ability to add risk if valuations back up.