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 August 30, 2019

Allianz Global Investors

ETF TICKER: EARN (Hedged)
MUTUAL FUND FUNDSERV CODE: EVF130 (Class F); EVF131 (Class A)

SUB-ADVISOR: Allianz Global Investors (AllianzGI)

AllianzGI is one of the world's leading active investment managers, managing USD 601 billion in assets, including over USD 200 billion in global fixed income (as at March 31, 2019).

EVOLVE GLOBAL MULTI-ASSET CREDIT:

August proved a volatile month for markets with sentiment swinging sharply on central bank dovishness (positive) and continuing trade war threats (negative). Equities fluctuated but ultimately finished slightly down for the period. Government bonds performed strongly, with US 10-year Treasury yields breaching the key support level of 1.50% and German bund yields plumbing new all-time, negative, lows. Credit performance was mixed with higher-rated issues substantially outperforming lower-rated ones, in both spread and total return terms. As a guide, Investment Grade spreads widened 10bps but the sector returned over 2% in USD-hedged terms (primarily driven by duration effects), BB-B high yield widened 25bps and was up 0.24%, and CCC high yield widened 121bps and lost nearly 2%, reinforcing our long-held mantra that yield does not equal return.

In this strong environment for fixed income, the Fund produced another month of attractive returns with the portfolio's carry and composition offsetting a widening spread environment. Financials were the strongest performing segment, and our treasury futures hedge was also a positive contributor. **Our limited exposure in CCCs was beneficial, as was the lack of exposure in Argentina, which saw its bond markets collapse after a poor poll result for the incumbent government.**

During the month we exited some Financial names keeping the proceeds in cash. There were no significant sectoral changes in the portfolio.

OUTLOOK:

September will be a key month for markets with the ECB meeting on the 12th and the US Fed on 18th. Over the next 12 months, there are 100bp of cuts priced in for the Fed and 30bps for the ECB. With such dovish sentiment priced into the market, it will be difficult for Central Banks to meet expectations. The US economy continues to outperform other regions, albeit with growth driven by consumer spending and a government deficit, while manufacturing and export sectors are deteriorating at the margin.

Evolve ETFs
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As such we believe that credit remains an attractive investment class, with economic conditions adequate for investment grade and the upper echelons of high yield, while market gyrations may also offer up some opportunities in lower B and CCC-rated issues. Careful selection is a must however as nervous markets will punish poor idiosyncratic performance.