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 October 31, 2019

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

Allianz Global Investors

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:

October was a positive month overall for credit markets. Short end government rates fell as the US Federal Reserve eased policy for the third time this year, however longer rates rose slightly on guidance that there would be no further cuts unless the economic data worsened materially. In the Eurozone, core rates rose from deeply negative levels, with longer maturities underperforming. Credit spreads had a mixed performance with Investment Grade and BB-rated issues tightening, while B- and CCC-rated issues widened. Sterling assets performed very strongly as Brexit was postponed again and a fresh election was announced. We saw a rise in idiosyncratic volatility, with company disappointments (particularly in the energy and commodities sector) punished by multi-point price drops.

In this context the portfolio had positive contributions from all sectors, but financials were the strongest contributor, as yield curves steepened. Our oil and gas producer names detracted modestly.

During the month we increased our exposure in banking and also added several new names in basic industry, energy and capital goods. We sold a couple of issuers in the electrical utilities space and reduced the treasuries position.

OUTLOOK:

Over the next 12 months we expect slower growth globally, with developed markets (and particularly the US) outperforming emerging ones.

We expect investment grade issuance to increase in November as companies exit their blackout period; this could place some pressure on spreads, but overall credit should remain well supported into year-end given central bank accommodation and investor demand.

In high yield we expect default rates to rise slightly, albeit from what are historically low levels.

Market prices are already in line with these expected moves however, such that high yield looks fairly valued overall and attractive in single-Bs. Higher rated issues have seen a stellar performance in 2019 and many are now capped in their upside potential due to callability.

Fundamentals are divergent by sector, but overall remain reasonable with interest coverage good on both sides of the Atlantic and prudent use of issuance mostly to refinance existing debt. Given the fundamental backdrop, we maintain our defensive posture favoring higher quality issuers in the financial and non-cyclical industrial sectors which should outperform if growth concerns continue to mount. Rising idiosyncratic volatility serves to underline the paramount importance of individual issuer selection in these market conditions.

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