NEO FIXD

MONTHLY COMMENTARY

Evolve Active Core Fixed Income Fund

FIXD invests primarily in domestic and international high quality fixed income securities, and to a lesser extent, adding yield or enhancing returns on the portfolio by opportunistically investing in international fixed income securities, emerging market debt, preferred shares, convertible bonds and non-investment grade bonds.

For the month ending November 29, 2019

ETF TICKER: FIXD (Unhedged)
MUTUAL FUND FUNDSERV CODE: EVF110 (Class F); EVF111 (Class A)
SUB-ADVISOR: Foyston, Gordon & Payne, Inc.

Foyston, Gordon & Payne Inc.
INVESTMENT COUNSEL

Fixed income allocations remain a core component of many investor portfolios as a source of income and portfolio diversification. Foyston, Gordon & Payne Inc. has managed the FGP Core Plus Bond Fund since December 31, 2015.

FIXED INCOME MARKET UPDATE:

For the second consecutive month investors welcomed a reprieve from the market volatility witnessed earlier in 2019. Benchmark yields across the developed world continued their slow march higher and away from the turbulent market clearing levels we saw just a couple months ago. The benchmark U.S. 10-year yield rose 9 basis points in November to end the month at 1.78%. More notably, the benchmark U.S. 10-year yield is now up 32 basis points off the end of summer lows. Yields on the comparable Canadian issue also moved higher by 4 basis points during the month to yield 1.46%. Risk assets responded positively to the reduction in market volatility-inducing geopolitical headlines, with most major equity and credit markets finishing the month firmly in positive territory.

ECONOMIC UPDATE:

Despite this positive tone the outlook going forward remains somewhat murky. There has been very little tangible progress toward a resolution on the biggest issues currently facing financial markets. As we head into the final month of 2019, the primary risk to 2020 outlook remains the trade relations between the U.S. and China and the potential escalation of international trade wars. Unfortunately, the two countries have not yet been able to turn the page on even Phase One of the agreement (which was supposed to be the easy part), arguing that this will remain an overhang for the foreseeable future. Add to this the very much unsettled Brexit/U.K. election situation, ongoing geopolitical unrest throughout the Middle East and Hong Kong, as well as the continued impeachment saga of the current U.S. president, and its clear there is no shortage of downside risks and plenty of uncertainty. Of course, none of these risks are new. They have already been the driver of much of the central bank easing we have witnessed so far in 2019 – most notably from the U.S. Federal Reserve and the European Central Bank. We will continue to watch closely to see if the current central bank 'insurance' proves sufficient to support further stabilization going forward.

PORTFOLIO UPDATE:

The portfolio maintained its duration at 1.5 years short of the benchmark which was a modest positive contributor to performance. Overall this year, the portfolio's below-benchmark duration position has acted as a drag on relative performance.

However, it is consistent with our view that long duration bonds – with a yield well below the rate of inflation – remains a risky investment. Our continued focus for the portfolio is on the preservation of capital in this low interest rate environment. Corporate bonds contributed positively to the overall return given the continued strength in credit spreads. Our overweight position in this sector was maintained during the month. Our long-standing strategy of improving the credit quality of our corporate investments also remains in place – in November we shifted away from Canadian Western Bank in favour of debt issues from lower credit risk banks. Additionally, the portfolio currently has no exposure to high-yield bonds after exiting our last position at the end of October. Preferred shares experienced some much-appreciated stability for a second month and acted as a positive contributor to performance during the month.

We continue to be positioned with a shorter-than-benchmark duration and an overweight to higher quality corporate bonds as we view the risk-reward of longer bonds and riskier credits as unattractive. The portfolio gains a meaningful yield advantage through a small weight in hybrid securities and an exposure to preferred shares which both currently offer yields exceeding those of riskier bonds.