TSX **BASE**

SPECIAL COMMENTARY

Evolve Global Materials & Mining Enhanced Yield Index ETF

BASE invests directly or indirectly in equity securities of global issuers engaged in the manufacturing, mining and/or integration of metals and materials, with added value of a covered call strategy on up to 33% of the portfolio.

As at March 17, 2020

TICKER: BASE (Hedged); BASE.B (Unhedged)

UPDATE:

Downside risks in the Materials and Mining sectors have been elevated through pandemic induced demand weakness causing inventories to build up more than seasonal norms.

Stimulus in much of the world is focused on alleviating consumer hardship and while China will likely deploy more conventional fixed-asset stimulus, such action is likely to only support existing activity rather than initiate growth in the sector.

Since the peak of the market on February 19th, the Evolve Global Materials & Mining Enhanced Yield Index ETF ("BASE") has declined -34.02% led by large industrial names such as Freeport-McMoran Inc. (-48.43%) and Eastman Chemical Co. (-44.53%). Softening the decline have been gold miners Newmont Corp. (-11.54%) and Anglogold Ashanti (-16.07%). Gold has not yet offered the safe haven expected in this time of crisis, down 8% over the period, but that is perhaps a result of the trading dynamics of the speed of the sell-off which has spared no asset class. Certainly the down capture of gold mining companies is enviable compared to most other sectors of the market.

On Feb 21st we rolled our options into the March expiry. Given the levels of the markets at the time we made the decision to be fully deployed and wrote against the maximum 33% of the portfolio. This turned out to be a profitable decision.

At time of writing only 12% of the portfolio still remains covered and all remaining calls are trading way out of the money and have zero bid. The Fund will realize 100% of the premium at expiry.

As we look to the next month, we are on the sidelines for the time being. While volatility remains high (the average implied volatility for calls 2-5% out of the money, one month from expiry is currently 103), premiums are not appropriately compensating us for the technical risk of selling at today's prices.

Bear markets are characterized by one-or-two day sharp rallies which can easily whipsaw a trader out of a short call position for a loss. In the past week we have seen many names move as much as 10% in either direction in a single day.

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Our aim is to capture premium safely for investors and our risk systems are designed with that goal foremost in mind.

We are trailing the market down and will be establishing new calls when new lows have been confirmed for multiple trading sessions. We are looking for a breakout to either side. At the moment, the safest approach is to stay on the sidelines and respect the signals from our risk systems.

MACROECONOMIC HIGHLIGHTS:

Gold, normally a haven in the face of economic uncertainty, took an unexpected plunge alongside diving global stock markets in the face of COVID-19's global spread, and the virus's impact on the Chinese (and as the month progressed, the world's) economy. Prices at the end of February were down 1.3% from the month before, and gold saw its steepest weekly decline since November 2016. Gold futures were down 4.6% at $1,566.70.[i]

Remember: China is a leading gold consumer, and the coronavirus outbreak's negative impact on the Chinese economy hampered Chinese citizens' purchases of gold and silver.

With steep stock-market declines, gold has also become the asset of choice among investors looking to generate cash quickly and then run for cover. There was similar behaviour during the 2008 financial crisis, but once investors understood the scope of central bank stimulus, they resumed buying gold. Expect the yellow metal to recover some of its lost value in the months ahead.[ii]

Meanwhile, silver prices have likewise taken a hit due to its industrial attribution and lack of industrial demand, as well as fears of lost commercial and consumer demand in the face of virus fears and slowing world economic growth.[iii] Silver plunged 7.2% to $16.43 an ounce, on track for its worst week since 2011.[iv]

Palladium was down 10.8% to $2,538.21 per ounce, its worst one-day performance since the 2008 financial crisis. At one point in late February, palladium hit a record high of $2,875.50 before retreating. Despite this, palladium was still on track to gain for a seventh consecutive month due to a continuing supply shortfall. As with gold, investors were selling off the precious metal to cover losses elsewhere.[v]

Platinum shed 5.5% to $849.63, which included its worst weekly fall since 2008 and its lowest level since December 2019.[vi]

Copper was trading above its 2020 low, which it hit back at the end of January, but fell by 0.7 percent to US$5,617, erasing half the gains it had made since January.

Zinc started 2020 at US$2,297 but had fallen to US$1,998 by the end of February.

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Likewise, nickel—valued at US$14,070 at the start of 2020—was down to US$12,275 per metric ton by month's end.

The only base metal with a relatively happy story was lead, which closed February at US$1,921 per metric ton.[vii]

Rio Tinto announced that it would be spending US$1 billion to reach net-zero emissions by 2050. The second-biggest miner in the world, Rio Tinto has also committed to reducing its emissions by 15% by 2030. The company's absolute emissions have already declined by 46% since 2008, mostly as a result of divestments.[viii]

Newmont Corporation's Q4 earnings topped estimates, earning $0.50 per share versus projections of $0.48 per share, and up on earnings of $0.40 per share a year ago. Over the last four quarters, the company has beaten consensus estimates twice. Newmont posted revenues of US$2.97 billion for the quarter ending December 2019, compared to revenues of $2.05 billion a year earlier. To the end of February, Newmont shares added about 6.3% since the beginning of the year.[ix]

SOURCES:

[i] https://www.cnbc.com/2020/02/28/reuters-america-precious-palladium-slumps-nearly-13-percent-gold-up-to-4-point-6-percent-as-precious-metals-join-virus-led-free-fall.html
[ii] https://www.marketwatch.com/story/theres-a-simple-reason-that-gold-is-falling-along-with-coronavirus-afflicted-global-stocks-2020-02-28
[iii] https://www.kitco.com/news/2020-02-28/Why-gold-silver-prices-seeing-pressure-amid-global-equities-meltdown.html
[iv] https://www.cnbc.com/2020/02/28/reuters-america-precious-palladium-slumps-nearly-13-percent-gold-up-to-4-point-6-percent-as-precious-metals-join-virus-led-free-fall.html
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[vi] https://www.cnbc.com/2020/02/27/reuters-america-precious-gold-gains-on-virus-spread-rate-cut-hopes-palladium-surges-to-record.html
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[viii] https://www.theguardian.com/environment/2020/feb/26/rio-tinto-announces-1bn-spend-to-reach-net-zero-emissions-by-2050
[ix] https://www.zacks.com/stock/news/774966/newmont-corporation-nem-q4-earnings-top-estimates

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