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.

As at May 29, 2020

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

SUB-ADVISOR: Allianz Global Investors (AllianzGI)

Allianz Global Investors

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).

MARKET & PORTFOLIO UPDATE:

May proved to be another constructive month for credit with spreads tightening in the second half, even in the face of weak economic data, heavy issuance, and several corporate defaults. Investment grade corporates were 25bps tighter, while high yield was 107bps tighter, with lower rated issues outperforming (they still remain behind YTD) and the US outperforming Europe. Energy-related issues stood out as the oil price (WTI) recovered from $19/barrel to $35; the high yield energy index was up over 12% in CAD hedged terms. Government rates fluctuated within a range, with yields rising in core Europe and the long end of the US curve, however, falling for southern Europe and shorter US maturities.

In this context the Fund had another strong month with returns primarily driven by spread tightening, with a small detraction from rising rates. Our high yield and investment grade industrial holdings were the best performers with all credit sectors contributed positively. We reduced our equity index hedge position from 3% to 2%; this position detracted slightly as the S&P continued to recover. We reduced our financials allocation and drew down on our cash balance to add to our risk in primarily fallen angel industrials, with several new additions in consumer and capital goods, energy, and telecoms.

OUTLOOK:

The recent rally may have pushed valuations to optimistic levels overall. Looking at our expectations of defaults and downgrades, BBs still look attractive, as do several likely fallen angel candidates which are already trading at sub-IG levels. Emerging markets also look attractively priced overall. We believe that significant long-term challenges remain for several industries however in a post-COVID19 world, including airlines, gaming, retail, and shale energy. Second quarter earnings and outlooks, which should start appearing in mid-July, will be illustrative of the changing landscape.

As a result, we believe that dispersion amongst sectors and issuers will likely remain elevated and allow for alpha generation amongst active managers.

Evolve ETFs
Brookfield Place, 161 Bay Street, Suite 2700, Toronto ON M5J 2S1
416.214.4884 | 1.844.370.4884 | www.evolveetfs.com

Investment grade spreads have now tightened by 122bp since their peak on March 23rd – retracing more than half of their widening. We do believe that a return to the wides is unlikely due to central bank intervention, but also note that spreads are quickly closing in on their long-term average despite a still high degree of uncertainty regarding the pace of the recovery.