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 June 30, 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:

In June, policy stimulus and the gradual rebound in economic activity continued to support risk assets, although spikes in coronavirus infections (especially in the US) did dampen some of the positive sentiment into month-end. The US Federal Reserve left its funds rate unchanged at 0-0.25%, as expected, but the Fed's median projected path for the policy rate showed no change until at least the end of 2022. 10 Year US Treasury yields ended the month towards the bottom of recent trading ranges at just 66bps (having been as high as 90bps early in the month). In support of credit markets, the Fed also announced that it would start buying corporate bonds in the secondary market; prior to this, the Fed had only bought corporate bond ETFs. In the Euro area, the European Central Bank also continued to offer additional liquidity in its efforts to support economic activity, while fiscal policy also turned more expansionary.

The credit markets responded positively to these conditions with spreads tightening 24bps for investment grade and 47bps for high yield overall, albeit with performance being front loaded and weaker dynamics towards the end of the month. CCCs had a spectacular month with spreads tightening 231bps, with many issues recovering from distressed levels to merely stressed. Energy had a very strong month as Crude Oil prices continued to recover from their April lows, with WTI ending at just under $40/bbl.

In this context the portfolio was up 0.63% for the month (net of fees in CAD), with most of the returns driven by spread tightening. During the quarter, all credit sectors contributed positively, but investment grade industrials did best relative to their share in the portfolio. Energy names were notable standouts as per the market moves above. There were only a handful of mild detractors, most of which were in less cyclical industries.

During the month, we made several changes to the portfolio, reducing exposure in insurance, basic industry, communications, consumer non-cyclical and utilities. We added new positions in mortgage-backed, REITs, banking and energy, while also holding some proceeds in treasuries.

OUTLOOK:

Looking ahead we have a constructive overall view on credit as the global economy gradually rebounds, balance sheets are repaired and as central bank support for the asset class remains strong. It is important to realize, however, that central banks can only solve for liquidity and not solvency so we still expect a material amount of ratings downgrades and defaults as stimulus wanes and the economy exits at a lower output level. At the same time there will be a number of 'mispriced dynamics' where credit risk is over-estimated and active managers can harvest attractive returns.