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 September 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:

Credit spreads moved wider during September, led by USD credit, as sentiment was dampened by concerns over the upcoming Presidential election, namely if the outcome would be contested. Related to this was the concern that Democrats and Republicans will not be able to agree on a new stimulus package. European issues were also negative, as the pace of the economic recovery slowed in the region with more COVID-19 cases rising, and a no-deal Brexit back in play. Global Investment Grade spreads were 6bps wider while High Yield was 39bps wider; lower rated issues generally underperformed but CCCs were surprisingly tighter. Despite the weaker tone, a bright spot was Italy, where key regional elections maintained a market-friendly balance of political power which was particularly supportive for Financials. Emerging Market issuers underperformed as the US dollar bucked its recent trend and strengthened. Commodity-related producers including Energy issuers also fared poorly with WTI slipping below $40/bbl. Energy is still by far the worst performing sector in the year to date with high yield issues down over 17% in USD-hedged terms.

In this context, within the portfolio, our investment grade financials and securitized issues were slightly positive overall, with high yield detracting. Our equity index hedge was beneficial to the tune of 12bps, having been a drag in previous months.

During the month we drew down some of our cash balance and added new names in utilities, services, asset-backed and transportation. We exited two positions in energy.

OUTLOOK:

There is now an uneasy balance between deterioration in economic growth and issuer fundamentals vs. central bank asset price support. As we head into the US elections we do expect the market to fluctuate but do not expect the outcome to materially alter the course of the economic recovery nor our constructive view on credit as balance sheets are in general being rebuilt and central banks remain firmly in place to provide liquidity for long-term viable businesses. Investors do need to be wary of rising M&A risks which for now remain isolated to strong credits in sectors that have weathered COVID-19. High yield looks reasonably priced overall, with expected rises in defaults more than covered. Value seems greatest in single B issues and emerging markets.