

Evolve Dividend Stability Preferred Share Index ETF

PREF invests in 50 high quality preferred equity securities of companies listed in Canada.

As at December 31, 2020



TICKER: PREF (Unhedged)

MACROECONOMIC HIGHLIGHTS:

Canadian preferred shares underperformed all major asset classes during the first half of the year, led by floating rate and fixed reset preferreds with low resets which experienced a sharp sell-off.

During the first quarter, preferreds did not escape market volatility triggered by the coronavirus, and were further impacted by central banks around the world cutting interest rates to record lows in their quest to stimulate their economies which had slowed to a crawl.

The Bank of Canada cut interest rate three times in the month of March alone, with rates declining dramatically, from 1.75% to 0.25%, where they would remain for the remainder of 2020.

As a result, interest rates came under substantial pressure with global yields courting negative territory on the back of an uncertain global economic outlook. Fixed reset preferreds which make up almost three-quarters of the Canadian preferred market were the most affected by low yields.

In the second quarter, preferreds regained some ground on the back of tightening credit spreads and stabilizing fund flows, albeit in a continuing low rate environment. Credit spreads tightened in June in the wake of government and central bank stimulus.

The Fund outperformed its peers because it has no exposure to floating rate preferreds, and the portfolio has a higher allocation to P1 credit quality which has proven to be more resilient during market sell offs. In addition, all rate reset preferreds held by the Fund have a minimum floor built in.

Canadian preferred share prices rallied through the summer with a Q3 total return of 11.4%, compared to the S&P/TSX at 4.7% and FTSE Canada Bond Universe at 0.4% over the same period.

Canadian preferred shares ended 2020 with a rally of 2.42% for December driven primarily by tightening credit spreads. This brought the 2020 annual return for Canadian preferred shares to 6.16%.

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