MARCH COMMENTARY

# Evolve Active Core Fixed Income Fund

FIXD invests primarily in domestic and international high quality fixed income securities, and to a lesser extent, adding yield or enhancing returns on the portfolio by opportunistically investing in international fixed income securities, emerging market debt, preferred shares, convertible bonds and non-investment grade bonds.

NEO FIXD

FIXD (Unhedged)

**MUTUAL FUND FUNDSERV CODE:** EVF110 (Class F); EVF111 (Class A)

**SUB-ADVISOR:** Addenda Capital

ADDENDA CAPITAL

Active management in Canadian Preferred Shares continue to be an attractive investment opportunity. Addenda Capital is one of Canada's largest multi-asset investment firms, with over $34.4 billion in assets under management, including $1 billion in preferred shares (as at October 30, 2020).

## MARKET UPDATE:

March continued where February left off as far as market movement goes. Market participants continue to look through the pandemic to signs of better days ahead as vaccines roll out and economic data surprises to the upside. Interest rates continued to move higher alongside the equity markets. Specifically, rates climbed over 80 bps during the first quarter and the yield curve steepened significantly in the mid and long-term maturities as further US Government stimulus spurred inflation concerns. Corporate credit and high yield securities outperformed with stable to improving spreads despite strong new supply, and Preferred Shares once again outpaced both equity and bonds.

In this rising rate environment, the Evolve Active Core Fixed Income Fund portfolio declined, however, exceeded its benchmark. Outperformance of the benchmark during the quarter was largely attributable to being overweight in Preferred Shares (via DIVS) as that asset class continues to provide strong absolute returns.

Economic growth continues to be supported by fiscal stimulus and a historically high saving rate. In addition, the unemployment rate should see a decline as pandemic related closures re-open. Inflation will experience cyclical pressure due to the base effects as measures reflect the rebound from the depts of the pandemic lockdown period. As such, we may see cyclical inflation cause the yield curve to further steepen. Potential risks to our base case include higher personal and corporate taxes due to the significant US fiscal stimulus; inflation being higher than expected due to supportive monetary and fiscal policy which could result in driving longer term interest rates higher.  Going forward we will continue to actively manage portfolio duration to take advantage of interest rate volatility and maintain our off benchmark exposures to Preferred Shares and Global credit.

Evolve ETFs
Scotia Plaza, 40 King Street West, Suite 3404, Toronto ON M5H3Y2
416.214.4884 | 1.844.370.4884 | www.evolveetfs.com