SEMI-ANNUAL 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.

EARN (Hedged)

MUTUAL FUND FUNDSERV CODE: EVF130 (Class F); EVF131 (Class A)

SUB-ADVISOR: ALLIANZ GLOBAL INVESTORS (ALLIANZGI)

AllianzGI is one of the world's leading active investment managers, managing USD 692 billion in assets, including over USD 242 billion in global fixed income (as at December 31, 2020).

PERFORMANCE ANALYSIS:

Markets started 2021 where they left off in 2020, in buoyant mood. The reflation theme that has characterised market sentiment over the past six-to-nine months was given a further boost after Democrats took slim control of the US Senate after the State of Georgia run-off elections, raising hopes of another large US fiscal stimulus in early 2021.

By the end of Q1, the markets were slightly mixed for credit with improving conditions in the US and UK, contrasting with resurgent Covid infections and lockdown measures in continental Europe. President Biden signed a $2trn stimulus bill and announced a further $2trn plan for infrastructure spending and job creation, while the US Federal Reserve kept rates unchanged and indicated a willingness to tolerate temporarily above-target inflation. Oil prices climbed strongly at the beginning of the month, with WTI crude getting to $66/barrel, then fell back and were volatile for the second half, finishing at just under $60/barrel.

Investment-grade spreads were 3bps wider, while high yield tightened 11bps. Shorter duration issues outperformed in total return terms given rising yields. Emerging markets widened, principally on political instability in Turkey and Brazil.

At the end of Q2, much of the market focus was on whether the US Federal Reserve would reduce its highly accommodative policy rhetoric, given robust economic growth and near-term inflationary pressures. In the event, the Fed did indeed surprise the market with a more hawkish policy shift than was expected, but government yields had mixed performance – 5y US rates were up 9bps to 0.89%, while 10y rates sank 13bps to 1.47%. The US dollar also strengthened, which contributed to underperformance by emerging market issuers. In Europe, the European Central Bank maintained its stance but upgraded its forecasts for growth and inflation; core government bond yields were little changed but peripheral spreads tightened.

In this context, all segments of the Evolve Active Global Fixed Income Fund contributed positively overall but financials led the way, and high yield also contributed strongly, particularly in energy. We expect default rates to remain low, thus the main risk at this juncture is spread widening. In this respect, high yield compares well to investment grade and other fixed income segments. As central banks start to ease off their accommodation, we believe that shorter duration / high spread assets should outperform. We do not expect spreads to tighten, but see credit as an income play with the ability to withstand some moderate retracement of spreads or government yields.

While we see the market trending towards full value overall, pockets of opportunity do remain. A global opportunity set allows us to allocate flexibly, according to expectations of central bank actions and growth.

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