AUGUST 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.


FIXD (Unhedged)

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

SUB-ADVISOR: 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 $35.5 billion in assets under management, including $24.3 billion in fixed income and over $1.1 billion in preferred shares.
Source: Addenda Capital, as at March 31, 2021. *Excludes $1,146 million in Advisory assets and $295 million in Overlay assets.

## MARKET UPDATE:

The summer doldrums were quite apparent in the investment markets during the month of August, particularly the Canadian fixed income market. The yield curve remained effectively unchanged from the end of July to the end of August, and credit markets were similarly quiet with spreads only tightening by 1 basis point (bp) over the month from 118 bps to 117 bps. Further, new corporate bond issuance slowed down considerably during the last two weeks of the month. This relative inactivity was partly due the US Fed commenting that quantitative easing would continue (i.e. no tapering) as many felt that "substantial further progress" had not been achieved yet. A similar announcement was made from the ECB when they met in early September.

The S&P/TSX returned 1.6% in August, while the S&P 500 returned 3.0% ($USD) but 4.3% in Canadian dollar terms because of the latter currency depreciating over the period. In Canadian fixed income, Universe bonds were flat returning -0.1% as a result of the quiet activity in interest rates and credit spreads described above. Corporate bonds modestly outperformed Provincial and Federal bonds due to their higher overall yields, although all three sectors had flat absolute returns. From a maturity perspective, short-term bonds were the "best" performing with a return of 0.1%, while long-term bonds declined -0.4%. Similar to Canada, foreign bonds were also relatively flat during the month of August but benefited from the depreciating Canadian dollar with the Barclays Global Credit Index ($CAD) returning 0.84. The S&P/TSX Preferred Shares Index continued its climb higher, although at a slower pace than previous months and similar to last month - returning 1.06% and bringing its YTD performance to 16.43%.

During the month of August, the Evolve Active Core Fixed Income Fund (FIXD) portfolio provided some capital preservation by slightly outperforming the benchmark. Contributing positively to performance during the month of August was relative strength from the underlying Core fixed income component combined with our off benchmark allocations to Preferred Shares and High Yield bonds; however, this was partially offset by weakness from our Global credit allocation.

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; although we have started to trim and take profits in the former.





Evolve ETFs
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