JULY 2022

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**

ETF TICKER: FIXD (UNHEDGED)
MUTUAL FUND FUNDSERV CODE: EVF110 (CLASS F); EVF111 (CLASS A)
SUB-ADVISOR: ADDENDA CAPITAL

Active management in Fixed Income continues to be an attractive investment opportunity. Addenda Capital is one of Canada's largest multi-asset investment firms, with over $38.1 billion in assets under management, including $26.1 billion in fixed income and over $1.2 billion in preferred shares.

Source: Addenda Capital, as at December 31, 2021. *Excludes $1,533 million in Advisory assets and $354 million in Overlay assets.

Market and Portfolio Review

Following the trend that started at the end of June, the month of July saw a continued reversal in the Fixed Income markets as interest rates fell sharply. 5- and 10-year bond yields fell the most declining approximately 50 bps, while long bonds declined approximately 40 bps. Short-term rates also declined, but only by approximately 15 bps as they are more anchored to central bank monetary policy. This decline in yields largely reflected the markets concerns about possible recession, and that the Central Bank will not its target overnight rate by as much as originally planned. Credit securities also benefited the decline in market interest rates; although spreads only move marginally tighter. The Preferred Share market however, remained relatively flat despite the activity in broader Fixed Income markets.

The S&P/TSX Composite Index total return was 4.66% during July, while the MSCI World Index (C$) fair a bit better, returning 7.22%. The FTSE Canada Universe Bond Index appreciated 3.90%, and the BarCap Global Credit Index ($USD) returned 2.56% as interest rates declined. The S&P/TSX Preferred Shares Index was relatively flat, declining 0.25%.

The FIXD ETF portfolio had a strong absolute return of 3.85% and effectively matched the performance of the benchmark during the month of July. Contributing positively to performance was the relative strength of the underlying Core Bonds segment which exceeded the broader market by over 70 bps as a result of its longer-than-benchmark duration. However, this was offset by the allocation to Preferred Shares, Global Bonds, and High Yield debt, which didn't keep pace with Canadian stocks and bonds.

Outlook

Global growth slows but remains above longer-term trends supported by fiscal stimulus and a historically high savings rate. We expect that growth will be primarily driven by the consumer and government sectors, although supported but positive business investment. Unemployment will continue to fall and dislocations in the labour force should work their way out as the participation rate rises.

Inflation pressure should peak in 2022 but remain above central bank targets due to supply chain issues, elevated commodity prices, and increasing labour costs. Significant dislocations in the labour markets with more job openings than available workers put upward pressure on wages. Structural forces (aging demographics, technology advancements, and a growing debt overhang) will continue as headwinds to long term inflation

2022 will be a transition year as central banks raise administered monetary policy rates and start to reverse bond purchase programs.

Global monetary policy evolves at different speeds as some central banks move to tighten while others maintain extraordinary easy policy. Above target price inflation will be the primary focus of central banks.

Fiscal stimulus via direct consumer programs has mostly finished but infrastructure spending will continue to contribute positively to growth.

Risks

Risk of recession grows as elevated inflation remains persistent, resulting in more aggressive central bank tightening to combat price increases which slows economic momentum in the process.

Reduction in the size of their bond purchase holdings and the ultimate terminal rate of policy tightening contribute to market volatility.

Longer term risk from significant Government fiscal deficits may result in higher personal and corporate taxes which would be negative for economic growth.

Evolve ETFs
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