

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.

TSX
EARN

ETF TICKER: EARN

MUTUAL FUND FUNDSERV CODES: EVF130 (CLASS F); EVF131 (CLASS A)

SUB-ADVISOR: ALLIANZ GLOBAL INVESTORS (ALLIANZGI)



AllianzGI is one of the world's leading active investment managers, managing over USD 703 billion in assets, including over USD 239 billion in global fixed income (as at December 31, 2021).

Performance Analysis

Global bond market volatility was elevated once again in October as inflation continued to surprise to the upside. Against this backdrop, several central banks dialed back their hawkish rhetoric and, consequently, interest rate markets began to question the size of future rate hikes and the peak in terminal policy rates in this cycle. The 10-year Bund yield ended the month at 2.14%, just 3 bps higher, having briefly risen as high as 2.42%. US Treasuries underperformed Bunds, with 10-year US yields ending the month at 4.05%, up 22 bps. In the UK the Prime Minister resigned, 10-year Gilt yields ended the month at 3.52%. GBP also ended the month 2.7% higher versus the USD.

Most major markets were positive over the month. Global investment grade credit spreads widened 2bps in October, while high yield was 63bps tighter. By region, Asia continued to underperform, however sterling assets rebounded strongly as the UK was again in focus as the Prime Minister resigned following a series of fiscal policy missteps in late September, which left the new UK chancellor having to return to more orthodox policymaking to stabilise the Gilt markets.

In this context and after having been dragged by rates sell-off this year, the fund performed well this month. Our industrial holdings performed strongly, especially the consumer both cyclicals and non-cyclicals, as well as transportation and financial institutions to a lower extent.

Portfolio strategy and activity

During the month we reduced in commercial services, electric power, healthcare, insurance, packaging, real estate and water companies. We added in banks, chemicals, financials services and entertainment.

Looking ahead, a restrictive global monetary policy stance continues to raise recession risks for the global economy over the next 6-12 months.

Central banks are facing a trilemma of hiking rates, recession and financial instability risks. At least in the short-term, central banks will likely deliver on current market pricing for further rate hikes into year-end, although we do recognize that global financial stability risks are growing against the backdrop of a strong US dollar. We expect bond market volatility to remain elevated in this environment.

Global credit markets continue to be driven by the path of interest rates and the interplay between central banks' battle with inflation and the risks of global slowdown. We expect this to remain the case through year end and, despite quite a strong start to the fourth quarter for credit valuations, we foresee that sentiment will remain changeable. Corporate credit quality is likely to be challenged in 2023 by high input prices, labour availability and slowing demand. There is close investor focus on refinancing risks for lower rated corporates and we expect that sifting winners from losers will require attention to the cost of debt and its availability, as well as the more traditional industry sector selection. Positively, credit valuations have adjusted significantly to reflect these risks over the past quarters. Wider spreads, higher absolute yields and very low new issue supply provide technical support to both investment grade and high yield markets while rising interest rates boost the attractiveness of an allocation to floating rate credit. In the context of the global multi-asset credit strategy, yields are much higher and curves flatter than they have been for some time, underscoring the attraction of security-selection led, short duration allocations to the asset class.

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