OCTOBER 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

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

Most equity markets broadly rallied during the month of October, with the exception being the growth heavy NASDAQ Index. The market remains hopeful that large interest rate increases are nearing an end. Many will suggest that earnings are good without considering the magnitude of negative revisions to Q3 forecasts coming in. Markets have a tendency to perform well during earnings season and that performance tends to be even stronger when pessimism is high.

Fixed Income markets on the other hand continue to see yields rise which resulted in negative total returns for short, mid, and long-term bonds. The FTSE Canada Universe Index declined 1.0% during October, with Provincial bonds (with their higher relative duration) having the largest negative impact. The FTSE Corporate Index also declined by 0.8% during the period, while the Bloomberg Global Credit ($CAD) Index declined by 1.0%.

Despite this "risk-on" environment, the Canadian Preferred Shares market declined -0.8% during the month of October as a result of rising bond yields, bringing the YTD performance to -16.1%

In this environment underperformance during the month in the portfolio was partly attributable to relative weakness from the underlying Core fixed income component which was negatively impacted by its duration positioning in the rising yield environment. The off-benchmark allocation to High Yield bonds further detracted value, but this was partially offset by the Preferred Shares allocation which declined less than the broader fixed income market.

Outlook

Growth

- Global growth slows and falls below longer-term trends as demand declines due to stimulus withdrawal and demand erosion from inflation pressures.
- Risk of a recession increases due to tighter financial conditions from aggressive central bank tightening.
- Unemployment remains stable as tight labour markets create supportive conditions.

Inflation

- Inflation pressure should peak by the end 2022 but remain above central bank targets due to supply chain issues, elevated commodity prices, and increasing labour costs.
- The diffusion of inflation has broadened and with sticky components causing the overall price level to remain higher for longer.
- Dislocations in the labour markets with more job openings than available workers continue to put pressure on wages.

Monetary Policy

- Aggressive Central Bank tightening brings policy rates close to terminal targets.
- Against the backdrop of slowing economic growth, with continuing inflation pressures, Central Banks will be forced to choose between maintaining the inflation focus versus pivoting to stimulate growth.
- Expect continued steady planned reductions in balance sheet holdings which will reduce liquidity and support for risk assets.

Risks

- Future details surrounding how Central Banks reduce the size of their bond purchase programs and the pace/amount of policy tightening may contribute to market volatility.
- The path of inflation proves more persistent causing central banks to maintain tighter policy conditions for longer.
- Higher interest rates and higher inflation cause more signification demand destruction and a deeper recession.

Evolve ETFs
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