

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).

After the choppy waters of March, April provided plainer sailing for global credit markets. Attention turned back from the banking sector to the macro picture, where a benign March non-farm payroll print in the USA set a constructive tone, and then first quarter corporate earnings season became the focus. Despite the strong policy action to support the banking sector after a series of bank failures in the US and Europe, questions are growing about the near-term path of economic activity given expectations of constrained credit expansion ahead.

The market remains in balance from a risk point of view, trying to reconcile the weaker US economic data which has been coming through in April, with ongoing strong inflation, labor market data, and corporate earnings that currently are not showing much sign of a soft landing, let alone a hard landing.

Against a backdrop of higher equity markets, and government yield curves in Europe and the US, which were little changed apart from at the very front end, global BBB corporate spreads (GBC4) closed the month 6bps tighter and global BBs (HW10) were just 2bps wider. Both indices delivering positive total returns. New supply of bonds remains limited, especially in the high yield and crossover space, but issuances are being well received, providing an ongoing supportive technical.

Performance Analysis

Our global multi-asset credit strategies delivered modest positive double digits bps gross returns for April 2023. Evolve Global Multi-Asset Credit returned 0.59% net of fees.

Portfolio Strategy and Activity

The portfolios benefited from improved sentiment in the global bank sector and from idea-led trades coming to fruition, as well as the day to day carry and roll down. Portfolio activity was limited, although we did participate in one new leisure sector issue in the sterling BBB space and took profit on one tactical trade in the financial institution sector.

While the market backdrop feels decent for the time being, the global growth outlook remains challenging due to several factors: Increasing financial stability risks that brings the Fed closer to the end of its hiking cycle; credit contraction from reduced US bank lending will soon begin to affect economic activity and growth resilience; inflation is peaking, but the speed of decline in core inflation is a big question for markets - however, a re-acceleration in inflation seems unlikely; and the cumulative effects of rate hikes have yet to fully feed through into the real economy - we are seeing a transition from monetary policy tightening to credit tightening. The main question for markets is whether this is a temporary pause - or the real pivot of US monetary policy.

In this environment front end yields remain attractive in our view, with global central banks still raising rates but ever closer to the end of the hiking cycle.

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