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

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.

Market Review

Amid a shortage of corporate news in September, the Federal Reserve took center stage and addressed concerns about inflation. Their commitment to a prolonged period of elevated interest rates caused widespread market declines, erasing expectations of imminent rate cuts.

Bond yields have experienced a rapid ascent over the past two years, and although equities have largely remained resilient thus far, this trend could pose future challenges. Furthermore, as yields continue to climb higher and stay elevated for longer, the likelihood of unexpected market disruptions is increasing.

In September, bond yields also rose, with the 2-year GoC increasing by 32 basis points and the 10-year by 47 basis points. This was influenced by the Federal Reserve’s commitment to a higher-for-longer interest rate stance, dispelling earlier expectations of rate cuts.

The FTSE Canada Universe Index declined -3.87% during the month of September, while the FTSE Corporate Bond Index fared a bit better with a return of -2.22%. The Preferred Shares market was down -1.43%.

Portfolio Positioning

FIXD declined in absolute terms but added value relative to the benchmark. Off benchmark allocations to preferred shares added value. Value-add from the core fixed income component was also a source of strength.

Perspective

We have revised our recession forecast. Recent analysis by Addenda’s Economics team has shown that the probability of a consumer driven recession in the U.S is not as strong. US consumers are estimated to have approximately 1.5Tn in excess savings, though we acknowledge the disparity of views on this topic among analysts.

We expect quicker disinflation in the US, which may mean that the Fed may get to terminal rate faster, with our team expecting no further rate hikes by the U.S central bank. Moreover, unit labor costs, which is a leading indicator of services inflation, has fallen notably in the U.S, as labor productivity has increased. We believe a scenario of a soft landing in the U.S is likely.

However, the Canadian productivity picture is not as positive. Year over year base effects will not be materially favourable until the second half of 2024.

Unit labor cost growth this side of the border should remain higher than in the U.S at around 4.0% on average. Core inflation should remain higher in Canada than in the U.S.

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