DECEMBER 2024

MONTHLY UPDATE

Evolve Active Canadian Preferred Share Fund

DIVS seeks to provide holders of units with stable income and long-term capital appreciation by investing primarily in a diversified mix of preferred shares of primarily Canadian issuers, in addition to U.S. and international issuers.

TSX **DIVS**

ETF TICKER: DIVS (UNHEDGED)
MUTUAL FUND FUNDSERV CODE: EVF100 (CLASS F); EVF101 (CLASS A)
SUB-ADVISOR: ADDENDA CAPITAL

Addenda Capital is one of Canada's largest multi-asset investment firms, with over $38.3 billion in assets under management*, including $22.9 billion in fixed income and over $743 million in preferred shares.

Source: Addenda Capital, as at June 30, 2024. *Excludes $2.7 billion in Advisory assets and $621 million in Overlay assets.

Market Review

Despite Central Banks on both sides of the border actively working to lower interest rates, the yield curve increased by approximately 20 basis points (bps) in the quarter as a result of the U.S. election and concerns about tariffs and possible budget deficits.

Cooling headline inflation gave policy makers confidence that a higher rate regime was no longer necessary.

In Q4, yields under 1-year were dragged lower by the changes in the overnight rate as the Bank of Canada (BoC) delivered an additional 75 bps of easing along with the Federal Reserve (Fed) decreasing its target rate by another 50 bps.

However, yields rose along the curve for maturities 1-year and greater, resulting in returns for the FTSE Canada Universe Bond Index being slightly negative. Shorter maturities posted slightly positive returns as their yield carry offset most of the negative impact of rising market interest rates.

S&P/TSX Preferred Share Index rose by 3.5% in the 4th quarter and 2.59% in December. The LRCN issuance window for Canadian banks remained open, as we saw two offerings this quarter, allowing the banks to continue to redeem their listed preferreds. We saw redemptions from several non-bank issuers such as Fairfax Financial Holdings and Loblaw Companies Limited surprising investors with redemption announcements which continues to be a tailwind for the overall market.

Positioning

The portfolio continues to be positioned defensively, with a larger fixed income exposure and lower fixed resets compared to the benchmark.

Looking ahead, the momentum should remain constructive for this space provided that economic growth continues to be positive. Bank issuers will likely continue to redeem their retail preferreds as the robust demand for credit supports the more economical LRCN issuances.

The asset class will also be highly correlated to similar higher risk fixed income assets such as high yield, LRCNs, NVCC and hybrids, and the movement of credit spreads. We are cautiously optimistic on credit spreads, recognizing central banks' significant progress in curbing inflation, while remaining mindful of reflation risks in Canada.

However, we look to deploy a defensive tilt, amid an expected slower macro environment. The portfolio holds a large fixed income and longer duration preferred shares (perpetuals and long-dated fixed rate resets) to reflect this view.

Perspective

Economic growth driven by strong domestic demand challenges the large output gap narrative. Continued strong income gains and high household savings balances support consumer spending in both Canada and the United States. Labour markets post gains, but unemployment rate increases due to participation growth and not job shedding.

Fiscal deficit projections remain high pointing to a contribution from government spending.

Currency weakness drives higher import prices.

Wage inflation remains elevated in Canada and contributes to higher services inflation. Immigration policy changes will reduce labour supply and may add pressure to wages.

Goods prices have driven the majority of CPI deceleration but risk an uptick from base year effects. Productivity gains in the United States provide relief to inflation pressures (unit labour costs below 2%), while negative productivity in Canada will contribute to higher inflation.

Evolve ETFs
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