

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.

CBOE

FIXD

ETF TICKER: FIXD (UNHEDGED)

MUTUAL FUND FUNDSERV CODE: EVF110 (CLASS F); EVF111 (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

During the month of January, market sentiment was dominated by macroeconomic developments, including trade uncertainty following the inauguration of President Trump and disruption in the AI investment narrative. The month's most significant development came in the final week when Chinese AI company DeepSeek announced it had developed a competitive Large Language Model (LLM) at a fraction of the cost of leading U.S. models. This sparked significant sector rotation. While the news benefited software and AI-adopting industries, it raised concerns about the long-term infrastructure spending required for AI, negatively impacting data center builders and power supply companies.

Trade policy also took center stage, with the Trump administration initially announcing sweeping tariffs, including a 25% tariff on most Canadian exports and a 10% tariff on oil. However, these tariffs were delayed by another month after Canada and Mexico implemented stricter border controls on drug trafficking and migrant crossings. Whether the tariffs will ultimately be imposed remains uncertain; however, if history is any guide, Trump may settle for a symbolic win rather than an extended trade dispute, with negotiations likely to follow.

Within the Fixed Income markets, monetary policy remained a key focus. The Bank of Canada cut rates by 25 bps in January and acknowledged the risks posed by trade tensions and currency weakness. Meanwhile, the Federal Reserve maintained its stance but left room for rate cuts later in 2025. Markets are now pricing in two BoC rate cuts this year, though inflationary pressures from tariffs could complicate this outlook.

In this environment, FTSE Canada Universe Bond Index returned 1.20% during the month of January.

Positioning

The underperformance of the Evolve Active Core Fixed Income Fund (FIXD) during the month of January was attributable to the off-benchmark allocation to global bonds.

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.

Commissions, trailing commissions, management fees and expenses all may be associated with exchange traded funds (ETFs) and mutual funds. Please read the prospectus before investing. ETFs and mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

The contents of this piece are not to be used or construed as investment advice or as an endorsement or recommendation of any entity or security discussed.

Certain statements contained in this documentation constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to a future outlook and anticipated distributions, events or results and may include statements regarding future financial performance. In some cases, forward-looking information can be identified by terms such as “may”, “will”, “should”, “expect”, “anticipate”, “believe”, “intend” or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Evolve undertakes no obligation to update publicly or otherwise revise any forward-looking statement whether as a result of new information, future events or other such factors which affect this information, except as required by law.