



Horizons Active Global Fixed Income ETF (HAF)

Market Review

Following a significant rally late in 2023 due to high expectations of rate cuts from central banks in developed economies, the first quarter of 2024 saw those expectations being readjusted. With signs of economic resiliency and inflation in the Services component still hovering at levels considered too high for central banks resulted in the U.S. 10-year yield moving from 3.88% to 4.25%. On the credit side, growing expectations of a soft landing led credit spreads to tighten, bringing them to a level not seen since 2021.

The U.S. Federal Reserve (Fed), the European Central Bank and the Bank of England decided to keep rates on hold during the quarter to better assess the impact of monetary policy. On the other hand, central banks in Brazil, Mexico, and Colombia decided to cut rates as inflation continued a downward path in those nations. In Asia, the Bank of Japan decided to raise rates and end its negative interest rate monetary policy.

Quarter in Review

HAF's active mandate approach to sector allocation, security selection and duration has proven to be a support during this period.

During the quarter, we slightly increased the duration in U.S. Dollars when the 10-year U.S. yield reached 4.25% to reach an overall duration of 5.25 years. The Sub-Advisor has been trimming exposure to credit in general as credit spreads tightened significantly and considers the market is pricing a "perfect" soft landing scenario too aggressively. The Sub-Advisor prefers to remain more defensive on credit and be ready to take advantage of future opportunities while still maintaining a strong carry.

Sector-wise on the investment grade front, the Sub-Advisor still favours Consumer, non-cyclical issuers, as well as specific opportunities in the Communication Services industry. The Sub-Advisor remains selective with high-yield issuers and sector exposure is concentrated in Consumer Non-Cyclical, Energy, and Consumer Discretionary, where spreads are already reflecting the possibility of an economic slowdown. The Sub-Advisor favours quality issuers in the Energy sector as they are expected to continue generating significant free cash flow in this commodity-friendly environment. The Sub-Advisor has continued to gradually reduce its exposure to Additional-Tier 1 bonds to be slightly more defensive.

On the emerging market front, the Sub-Advisor remains overweight in Latin America considering its expectation of the continuation of the easing cycle for central banks in the region combined with attractive positive real interest rates. On the hard currency front, the Sub-Advisor remains overweight Romania (Euro) and Colombia. The Sub-Advisor also favours Mexico on the local currency side.

On the securitization side, the Sub-Advisor has been actively adding to data center asset-backed securities in the U.S. with highly-rated technology corporations as counterparties.

Outlook and Positioning

Global fixed-income markets offer a lot of opportunities, and the asset class is attractive considering higher rates globally. Starting in the second quarter, the strategy will be well-positioned to navigate various market environments considering its strong yield carry protection provided by an overall investment-grade profile and a diversified source of income. The strategy currently has a duration of 5.30 years and an overall credit rating of A-.

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