Global X Seasonal Rotation ETF (HAC)

Market Overview

At the start of the second quarter (Q2) of 2024, the U.S. economy was on stable footing with a positive Gross Domestic Product and low unemployment. In the first quarter, the inflation rate increased, but that reversed in Q2 with inflation trending lower. Overall, the economic conditions in Q2 provided a moderate tailwind. There were concerns that a number of coincident and leading indicators were showing potential weakness in the economy. The mixed economic signals made it a challenging environment for investors.

The U.S. Federal Reserve (Fed) continued to maintain a tight monetary policy, stating numerous times that they wanted to see inflation trend lower to 2% before they adjusted their policy. As Q2 progressed investors increasingly believed that the Fed would loosen its monetary policy. In June, the Fed slowed the pace of its quantitative tightening program, reducing its balance sheet. This was the first step in the Fed shifting away from a tight monetary policy and was supportive of a stronger stock market.

The increase in the S&P 500 in Q2 was dominated by large-cap Technology sector stocks which performed particularly well. In Q2, there was a lot of investor excitement about the potential of Artificial Intelligence (AI) that helped to boost the Technology sector. The stock market generally had narrow breadth as most stocks in the S&P 500 lagged the performance of the technology stocks.

The Canadian stock market underperformed the S&P 500 in Q2. This was largely the result of the Commodity sectors of the Canadian market performing poorly. In addition, the Canadian banks had mediocre performance at best in Q2. Generally, the composition of the value-oriented Canadian stock market did not favour its relative performance compared to the S&P 500.

Quarter in Review

At the beginning of April, HAC was substantially invested in equities. Towards the end of April, HAC started to decrease its equity allocation as the unfavourable six-month seasonal period for stocks - from early May to late October - was approaching. In early May, HAC substantially reduced its equity allocation as the unfavourable six-month period for stocks had started.

During May, HAC initiated a position in U.S. government bonds, which have a strong seasonal period from early May to early October. The position performed well as interest rates declined in Q2.

In April, HAC initiated a position in the Consumer Staples sector as it tends to perform well in May on a seasonal basis. HAC exited the position in late May, as it lagged the market. In addition, HAC also initiated small pair trade positions, with short sell positions in the homebuilders and materials sectors. The trades were offset with long positions in the S&P 500. The positions were closed in late June. HAC also initiated a position in the healthcare sector in June, as this sector tends to perform well during this month. In late June, HAC initiated a position in gold, as it started to show strength ahead of its strong seasonal period that starts in mid-July.

In late June, HAC increased its broad market equity allocation in the U.S. and Canada as the stock market on a seasonal basis tends to perform well at this time into mid-July.

Outlook and Positioning

In the third quarter, the sectors of the stock market that tend to perform well are Defensive sectors of the stock market, Health Care and Utilities. This is particularly the case after earnings season gets underway in mid-July. The Cyclical sectors of the stock market generally tend to perform poorly in the third quarter of the year on a seasonal basis. The Energy sector starts a strong seasonal period in late July. Although this seasonal period is relatively minor, the energy sector can perform well if it has lagged the stock market in recent months. This has been the case in Q2.

Historically, the stock market tends to perform poorly for most of the third quarter. Over the long term, the two weakest contiguous months of the year have been August and September. In the third quarter, the stock market is facing many challenges, including the economy showing growing signs of slowing down. Volatility is expected to increase as investors try to determine if any potential interest rate cuts from the Fed will offset a slowing economy. This is an election year in the U.S. and the third quarter could see some volatility in the stock market as the election approaches. The third quarter is expected to be challenging for the stock market, but any weakness is expected to present a good background for strong performance in the fourth quarter.

Commissions, management fees and expenses all may be associated with an investment in the Global X Seasonal Rotation ETF ("HAC" or the "ETF") (formerly Horizons Seasonal Rotation ETF) managed by Global X Investments Canada Inc. ("Global X") The ETF is not guaranteed, its value changes frequently and past performance may not be repeated. The ETF may have exposure to leveraged investment techniques that magnify gains and losses which may result in greater volatility in value and could be subject to aggressive investment risk and price volatility risk. Such risks are described in the prospectus. The prospectus contains important detailed information about the ETF. **Please read the relevant prospectus before investing.**

HAC is an alternative mutual fund within the meaning of National Instrument 81-102 Investment Funds ("NI 81-102") and is permitted to use strategies generally prohibited by conventional mutual funds, such as the ability to invest more than 10% of its net asset value in securities of a single issuer, the ability to borrow cash, to short sell beyond the limits prescribed for conventional mutual funds and to employ leverage of up to 300% of net asset value. These strategies will only be used in accordance with the investment objectives and strategies of HAC. HAC will comply with all requirements of NI 81-102, as such requirements may be modified by exemptive relief obtained on behalf of HAC. The Manager has a direct interest in the management fees and performance fees of the Global X Funds, and may, at any given time, have a direct or indirect interest in the Global X Funds or its holdings.

The Manager has a direct interest in the management fees and performance fees of the Horizons Exchange Traded Products, and may, at any given time, have a direct or indirect interest in the Horizons Exchange Traded Products or its holdings.

Certain statements may constitute a forward-looking statement, including those identified by the expression "expect" and similar expressions (including grammatical variations thereof). The forward-looking statements are not historical facts but reflect the author's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking statements. These forward-looking statements are made as of the date hereof and the authors do not undertake to update any forward-looking statement that is contained herein, whether as a result of new information, future events or otherwise, unless required by applicable law.

This communication is intended for informational purposes only and does not constitute an offer to sell or the solicitation of an offer to purchase investment products (the "Global X Funds") managed by Global X Investments Canada Inc. and is not, and should not be construed as, investment, tax, legal or accounting advice, and should not be relied upon in that regard. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies. These investments may not be suitable to the circumstances of an investor.

All comments, opinions and views expressed are generally based on information available as of the date of publication and should not be considered as advice to purchase or to sell mentioned securities. Before making any investment decision, please consult your investment advisor or advisors.

Published August 7, 2024

55 UNIVERSITY AVE.
SUITE 800
TORONTO, ON M5J 2H7
1 (866) 641-5739
@GLOBALXCA
GlobalX.ca