HAC Quarterly Commentary

June 2017

Market/Economic Update

The S&P 500® Index started the second quarter (Q2 – the first three months ending June 30, 2017) on a positive note in April. The first part of the month was fairly flat, but once earnings season got underway, the stock market started to rally as a high percentage of companies beat their expected earnings. As of June 30, 2017, Thomson Reuters reported that 76% of reporting companies beat their expected earnings. In May, the S&P 500® broke above 2400 to all-time highs. Despite suffering some volatility, it ended positive for the month. In June, the U.S. Federal Reserve raised its overnight benchmark target rate for the fourth time in a row. Investors started to question whether the U.S. stock market with its high valuations could sustain a hawkish stance by the U.S. Federal Reserve. As a result, the S&P 500 was only nominally positive for the month. The S&P/TSX 60™ Composite Index in the Q2 was negative as Canadian bank stocks were generally negative as well as Energy companies and Gold Miners.

At the beginning of Q2, the Horizons Seasonal Rotation ETF ("HAC") was fully invested in equity markets as it was positioned for the favourable six-month period for stocks that lasts from the end of October to early May. Although HAC did benefit from holding sectors of the U.S. stock market at different points in the second quarter, including Consumer Discretionary, Materials and Industrials, HAC's performance was mitigated by holding a position in the Canadian stock market and a position in the Energy sector.

Towards the end of April, HAC started to ¬take a more conservative stance as the six-month unfavourable period for stocks from the beginning of May to the end of October was approaching. In May, HAC increased its cash position and entered into bond positions in Canada and the U.S. In June, HAC maintained a position in cash, but reduced this position to invest in the equity markets late in the month. Investments were made into the Biotech sector which typically performs well from late June into September, and a position in the S&P 500 which typically performs well from late June up until the earnings season gets underway in mid-July.

Outlook

Historically, the third quarter of the year tends to be the weakest. Given that the stock market is close to all-time highs in a low-growth environment with richly valued metrics (such as the price-to-earnings ratio), the stock market is not expected to have a strong rally and is susceptible to a correction. The defensive sectors of the stock market are expected to outperform the S&P 500 in the third quarter. HAC looks forward to benefitting from investing in sectors of the market that tend to outperform in the third quarter and taking advantage of any possible corrections that may take place, leading to better opportunities in the fourth quarter.

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