HAF Quarterly Commentary

March 2019

Market/Economic Update

Yields around the world dropped for the first quarter of 2019 (Q1, the first three months ending March 31, 2019), as central banks surrendered to the markets and chose to move to the sidelines for the rest of the year. The Federal Reserve was the first to signal to the market that they would not hike for the remainder of the year and would complete its balance sheet reduction sooner than the market expected. The other central banks followed suit with dovish messages.

The move by the central banks, and the general risk-on environment, put a bid into all yielding products – we saw the spreads compress across emerging market, high yield, corporate and municipal bonds. This resulted in an impressive quarter for all fixed income asset classes.

The drop in yields saw curves flatten and we saw some yield curve inversion in the United States and Canada. The drop in yields also caused German and Japanese 10-year government bond yields to return to negative territory.

Argentinian and Mexican bonds were major winners this quarter, with 10-year yields in those countries decreasing about 75 and 63 bps, respectively. New Zealand and Portuguese bonds also rallied, while Japanese bonds saw only minor gains. Continued political turmoil hurt Turkish bonds, with yields there defying the global trend, rising by 150 bps in Q1.

Portfolio performance and positioning

Our holdings of U.S. bonds was very helpful, as was our weight in Mexican bonds, which rallied and were therefore very beneficial for us this quarter as they rallied on positive sentiment; they added about 50 bps of performance. Our ~10% weight in municipal bonds also helped us greatly. Our Canadian preferred equity holdings dragged on performance.

As risk sentiment has increased and preferred equities have lagged the current rally, we increased their weight. We have also been reducing duration of the fund and increasing the position in short-term securities, as yield curves are inverted in Canada and the United States, which means there is a higher rate of interest on short-term securities compared to five-year securities.

Outlook

We believe that the talk of yield curve inversion as a prelude to a coming recession to be overblown. At the current market levels, government bond yields and rate cut expectations have overshot fundamentals. We anticipate the economy will improve which should result in yield curves returning to a positive slope. The strategy is very well positioned to deliver positive returns whether interest rates go up or down.

We continue to recommend being underweight European and Japanese bonds as risk/reward is not attractive and favor higher-yielding countries such as the U.S., Argentina and Mexico.

Horizons ETFs is a member of Mirae Asset Global Investments. Commissions, management fees and expenses all may be associated with an investment in exchange traded products managed by Horizons ETFs Management (Canada) Inc. (the “Horizons Exchange Traded Products”). The Horizons Exchange Traded Products are not guaranteed, their values change frequently and past performance may not be repeated. The prospectus contains important detailed information about the Horizons Exchange Traded Products. **Please read the prospectuses before investing.**