HAF Quarterly Commentary

Q3 2021

Market Overview

After a strong rally in early August, bonds started to retrace and finished the quarter negative as hawkish comments and more cushion from key Federal Reserve board members were expressed toward inflation. The Delta variant led to lockdowns in Australia and New Zealand, but the rest of the world does not seem willing to go down that path again as vaccinations are effective and hospitalizations are low. The Federal Open Market Committee (FOMC) had emphasized through their forecast of statistical trends and data that the next hike could come sooner than anticipated. The public can begin to see the first hike in 2022 where the initial stance from public market participants saw it beginning in 2023. Upon receiving this tone from the Fed, the bond market had seen a sell-off which in turn had erased most of the quarterly gains

On the emerging market side, yield followed the same direction as those of developed economies in the hard currency front with some spread widening. On the local side, central banks across emerging markets are seeing unwanted inflationary pressure and we saw aggressive tightening policies from Brazil, Chile and many others that have switched to a hiking cycle to control inflation.

Quarter in Review

Our allocation to high yield and preferred shares has contributed positively to the strategy as the spreads continued to compress. Emerging market bonds was a negative contributor during the quarter as inflationary pressure from emerging market economies caused some pressure on spreads and as central banks switched to a hiking cycle in an attempt to tame inflation.

We continue to keep a significant amount of dry powder as we expect a continuation of the volatile environment.

Outlook and Positioning

Looking into Q4 2021, we expect major central banks to slow down the pace of monetary policy accommodation by announcing further tapering. The focus in the coming months will be whether the inflationary pressures are indeed transitory or not. In the latter case, the bond market could suffer significant losses. We like to keep some dry as a lot of good news is already priced in, leaving little room for a positive surprise and further spread compression. In this low-rate environment, we think emerging market fixed income is offering good value and valuation wise is continuing to look more attractive than high yield.

HORIZONS ETFs
by Mirae Asset