

Market Review

The S&P TSX 60 Index had a total return of 9.0% during Q2 2021, very similar to the performance seen in Q1 2021. The second quarter was characterized by continued optimism similar to what we have seen in the past several quarters: a continuation of central banks maintaining loose monetary policy, supportive fiscal measures from governments globally and a clearer path towards a reopening of the economy as health care systems progress towards greater vaccination rollouts. These three trends continue to benefit cyclical and growth sectors.

Technology shares were the best performing in our portfolio of Canadian companies. The best performing stock in our portfolio of Canadian shares, however, was technology company BlackBerry (“BB”). BB was extremely volatile during the period as it appears retail traders bet on the company to produce upsized profits. Despite the volatility, shares gained over 40% during the Q2 2021 period. Shopify Inc. (“SHOP”) also fared well: the company continues to benefit from the trend towards online shopping, which some market analysts think might be here to stay in the long-term even after brick and mortar stores reopen post pandemic. SHOP shares returned over 30% during the Q2 2021 period.

Energy stocks continue to perform well. Canadian energy giants Canadian Natural Resources (“CNQ”) and Suncor Energy (“SU”) were both higher during Q2 2021 as crude oil prices, as measured by the front month NYMEX crude oil future, continued their uptrend returning 24% in Q2 2021.

Option premiums, while volatile themselves in the second quarter, trended generally downwards into a rising equity backdrop. Risk premiums will be monitored in order to apply appropriate coverage levels throughout the cycle. An anticipation of continuing uncertainty surrounding health and economic realities may continue to keep option premiums more elevated than pre-pandemic levels. The covered call strategy is favourably positioned to potentially provide value from a yield, hedging and upside capture perspective in the current environment.

Outlook and Positioning

During each month, options are generally written on up to 100% of the equities in the portfolio of the ETF. The premiums are received from selling call options approximately one standard deviation out-of-the-money. The ETF’s monthly distributions are not fixed. They vary as the premiums generated from covered call writing are earned and passed through, and will alter with changes in implied volatility and time to option expiration. Distributions also vary based on the dividends received from the securities in the ETF’s portfolio during the period.

The equity positions in the ETF are rebalanced semi-annually to equal weightings. At times, constituents are added, dropped or replaced in order to better reflect the benchmark. There were no rebalances during the quarter.

