HUF Quarterly Commentary

Q3, 2019

General Market Review

Bond yields ended the quarter lower in response to increasing evidence of slower global growth and weakening trade activity. A breakdown in trade talks between the U.S. and China added to the volatility. Central banks took steps to offset these headwinds by further easing policy settings. The U.S. Federal Reserve cut its target rate twice by a total of 50 basis points, framing these moves as a "mid-cycle adjustment", while the ECB moved to extend its asset-purchase program and drove European yields further into negative territory. The Bank of Canada resisted a move to reduce rates as domestic economic conditions remain relatively resilient. The yield on the 10-year Canada bond ended the quarter down 10 basis points at 1.36% but hit a low of 1.09% in August.

Credit spreads remained resilient, exhibiting little change over the quarter. Our measure of corporate yield spreads moved wider by two basis points. There was some modest upward spread pressure on Communications and Financials, which was offset with improvements in Infrastructure and Real Estate. In Auto Finance, Ford Credit Canada was downgraded to below investment grade by Moody's which put pressure on these securities, though the impact was muted as the market had anticipated the action and it retains investment grade ratings from the other agencies.

Portfolio Review

The ETF saw positive spread contribution from the Financial, Industrial and Real Estate holdings offset partially by underperformance in Communications.

We remained active in the new issue market and participated in several issues. Some interesting investments involved a unique AAA rated asset backed security supported by residential mortgages. In addition, we were active in the secondary market on high-quality U.S. REITs like Ventas and Welltower.

Our portfolio's duration increased to 0.56 at the end of the quarter from 0.41 at the beginning.

Outlook

The North American economy has entered its longest period of uninterrupted expansion in modern times. The question increasingly on our minds is whether this can be maintained. The drag coming from trade disruptions and political unrest is weighing on both business and consumer confidence and risks further harm if these continue to escalate. On the positive side, household employment and income growth remain healthy. Also, the U.S. Fed and Bank of Canada have room to provide stimulus should it be needed. On balance, we expect a period of weaker growth to play out with bond yields exhibiting elevated volatility but should remain lower for a longer period of time.

Lower, and often negative, yields, globally, will continue to support higher yielding instruments which should generally help to support credit markets. The important caveat being that increased uncertainty and volatility should require some additional compensation. We will continue to apply a disciplined approach to culling positions that do not meet these criteria.

HORIZONS ETFs
by Mirae Asset