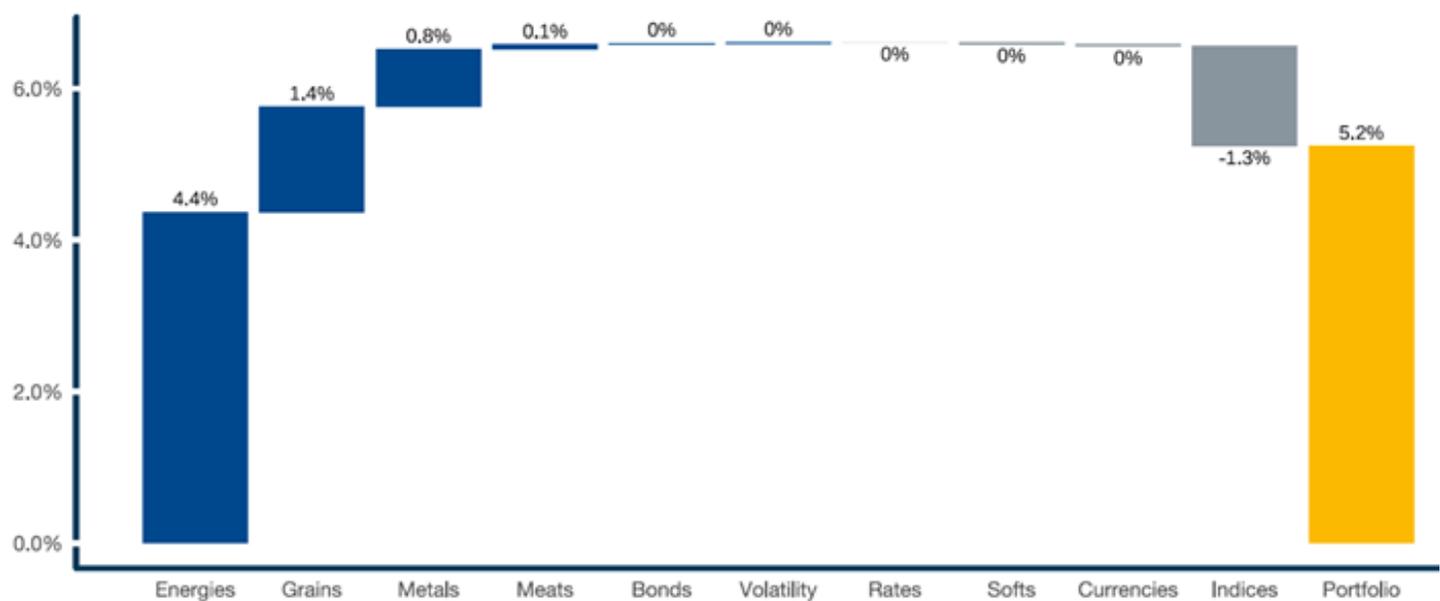


Quarter in Review

HRAA had a great start to the year, delivering a 5.2 percent return in the first quarter. The strategy benefitted primarily from long positions in commodities, while equity markets detracted.

The HRAA strategy offers exposure to a global risk parity core with a yield tilt, enhanced by an active macro trading strategy. Losses on strategic exposure to stocks and bonds in the risk parity sleeve were moderated by commodity exposure and tilted toward higher-yielding asset classes. The active macro trading overlay was especially profitable in the quarter and responsible for the bulk of the gains.

Figure 1. HRAA Performance Attribution – Q1 2022



Source: ReSolve Asset Management. Results may differ due to rounding. Performance is expressed in CAD. Strategy attribution is a best efforts approximation, net of all applicable borrowing costs, fees and fund accruals for the period. Indicated returns of one year or more are annualized. Past performance is not indicative of future performance.

Energies contributed the lion's share of profits to the portfolio, led by longs in crude oil, gas oil, heating oil, and Reformulated Blendstock for Oxygenate Blending (RBOB).

Grains were an important source of returns, mainly through long positions in corn and soybeans, followed by bean oil.

Metals also led to positive P&L, primarily from longs in platinum, copper, and gold, while a short position in silver resulted in a small loss.

Meats contributed with marginal gains, mainly from shorts in live and feeder cattle.

Sovereign Bonds produced flat returns but were the subject of intense changes in exposure. Gains were driven primarily by shorts in 5-year US Treasuries and the German Buxl, while active trading resulted in profits both from long and short positions in German Bunds. Losses stemmed primarily from longs in German Bobl and Euro-OAT.

Softs were flat because a profitable long in cotton was offset by losses in a short sugar position.

Equities were the largest detractors, led by longs in the Italian MIB, EStoxx50, China A50, and Dutch AEX indices. Gains from shorts in the German DAX and S&P500 reduced overall sector losses.

Market Overview

The first quarter was coloured by the regrettable invasion of Ukraine by Russian forces in the final week of February, marking the start of the largest conflict on European soil in decades. As the war entered its second month, the swift Russian victory many believed certain had not yet materialized, faced with fierce and heroic opposition by the Ukrainian military and civilian forces. While western countries have imposed the largest sanctions in history on the Russian regime – including the freezing of approximately two-thirds of Russia’s central bank assets; cutting banks’ access to the international SWIFT system; and stepping-up delivery of military aid to Ukraine, the US, and NATO allies have stopped short of sending fighter jets or declaring a no-fly zone over Ukrainian airspace.

Despite the loss of territory to the east and the capitulation of cities like Mariupol, Ukrainian forces have managed to push the Russian army back and away from Kyiv, suggesting the conflict might transition into a longer-lasting war of attrition. This has profound implications for energy and especially agricultural markets. Much of the fighting has and continues to occur in the Ukrainian countryside, a region that, combined with Russian farmland, is essentially Europe’s breadbasket, supplying approximately a quarter of global wheat exports and up to 12 percent of all food calories traded internationally . Even more consequential, the conflict threatens the availability of fertilizers on a worldwide scale, which could have profound consequences for food security across the planet, not to mention further geopolitical implications.

Russia accounts for approximately 10 percent of the world’s crude oil exports and 45 percent of Europe’s natural gas supplies. Combined with Ukraine, they represent roughly a third of wheat and a fifth of global corn exports. Unsurprisingly, energies continued their 18-month rally, with crude oil and RBOB prices appreciating between 35 and 43 percent, while the rise in natural gas and other distillates was in the 57 to 79 percent range. Grains also experienced double-digit gains, led by wheat, palm oil, corn, and soybeans. Metals also appreciated broadly, led by industrials and base, while the rise in precious metals was strangely muted.

US Gross Domestic Product (GDP), inflation, and labour market figures remained strong and ahead of expectations, leading to losses in financial assets and challenging the negative correlation between equities and bonds, which has endured for much of the last four decades and created an aura of invincibility to the so-called 60-40 portfolio. There was tremendous turbulence in sovereign bond markets, including a bear flattening in the US Treasury curve throughout March (as measured by the 10-year / 2-year differential), all the way into inversion territory at the turn of the quarter. A sharp acceleration in jobs growth was followed by a 7.9 percent Consumer Price Index (CPI) print, the most significant 12-month increase since January 1982 (and an even more impressive 6.4 percent rise in the core measure), leading U.S. Federal Reserve (Fed) chairman Jerome Powell to deliver further hawkish remarks days after the Fed’s first rate hike in over three years. 10-year and 30-year yields rose by 51 and 29 basis points (bps), respectively, while the rise in 2-year (+91bps) and 5-year (+74bps) yields was even larger, leading to a record-setting rout in Treasuries. Global equities sustained large losses in January and February but recovered some lost ground in March. European and Chinese shares, along with the Nasdaq and other firms with long-duration cash flows, saw the steepest declines. Investors appear to be signaling a return to the era of “good news (for the economy) is bad news (for markets)”.



HRAA Quarterly Commentary

Horizons ReSolve Adaptive Asset Allocation ETF

Q1 2022

Outlook and Positioning

The unfolding Ukrainian crisis and the response by western democracies seem to be crystallizing a trend that began with ‘trade wars’ and later deepened with the pandemic: de-globalization. Heavily reliant on international trade and interconnectivity, the period that began with the collapse of the Soviet Union shaped what perhaps was the most prosperous period in modern history. The signs that we have entered a new cold-war era grow all too palpable, with a still small but real risk of escalation into a broader conflict, as exemplified by the Kremlin’s decision to move their nuclear arsenal into high alert.

While it is hard to debate the morality of sanctions, they are likely to lead to unintended consequences. Weaponizing the US dollar pushes countries to seek alternatives, chipping away at its global reserve status. Sanctions also nudge Russia and other belligerent nations toward the Chinese Communist Party’s sphere of influence.

As recently posted by The Economist: how will the world economy weather the supply shock of energy and other raw materials (including base, precious and rare-earth metals, and grains) from Russia’s gigantic commodity reserves? Though the US government is considering the release of approximately 180 million barrels of oil from the Strategic Petroleum Reserve (SPR) over the next six months, the additional million barrels a day are dwarfed by the possible 5 million barrel-a-day shortfall from Russian crude exports. Further, swing producers like Saudi Arabia and the United Arab Emirates are estimated to have no more than 3 million barrels a day in spare capacity, with some estimates placing that capacity closer to 2 million.

Meanwhile, China’s pursuit of a zero-Covid policy could have profound implications for the global economy. The latest round of restrictions has included lockdowns in major manufacturing regions and even its largest city, Shanghai. For all the recent tough rhetoric and incipient tightening by the Fed and European Central Bank (ECB), it’s not hard to imagine a scenario in the coming months where they would be forced to once again pivot monetary policy in the wake of another slowdown in activity.



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