



# Horizons Active Canadian Bond ETF (HAD)

## Market Review

In the first quarter of 2024 (Q1), both the Bank of Canada (BoC) and the U.S. Federal Reserve (Fed) decided to keep their key rates unchanged. Both central banks have indicated that the start of rate cuts is approaching. They are observing encouraging signs on the inflation front, but they have opted for caution. In the U.S., the strength of the economy is encouraging the Fed not to cut rates prematurely. Moreover, the prospect of a soft landing for the economy has supported the narrowing of corporate bond spreads.

At the end of Q1, investors generally expect the U.S. key rate to fall from 5.50% to 4.50% by the end of 2024.

The rate on a 10-year Canada bond rose from 3.03% to 3.36%. At the end of Q1, the slope of the 2 to 10-year segment of the curve increased by 7 basis points (bps). It is now inverted by 71 bps. The 10- to 30-year segment is now inverted by 11 bps. Canada is the only G10 country whose curve is inverted in the 10 to 30-year segment. We are maintaining our strategy of positioning in the middle of the curve, to the detriment of long-dated bonds.

## Quarter in Review

During the quarter, curve & sector allocation were positive contributors to the strategy, while duration detracted some value. Corporate spreads tightened due to increased expectations of a soft landing. At the portfolio level, HAD's relative duration positioning compared to the index (duration deviation) is at around 110%, combined with HAD's positioning for a steeper yield curve exposure, with around 220% duration deviation in the 5- to 12-year part of the curve. From a sector perspective, the portfolio is positioned to be overweight federal and corporate issues and underweight provincial bonds.

## Outlook and Positioning

Recent economic data increased the expectation of a soft landing. In the Sub-Advisor's view, bond investors are underestimating the possibility of an economic slowdown. Given the current level of credit spreads and signs of a slowdown in certain sectors, the Sub-Advisor prefers to manage credit risk cautiously. The sub-advisor will maintain a position in the middle of the yield curve and a longer duration than the index. The Sub-Advisor believes that economic data will prompt central banks to begin the rate-cutting phase in 2024.

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