Horizons ReSolve Adaptive Asset Allocation (HRAA)

Market Overview

The U.S. economy continued to exhibit strong momentum since financial conditions began to ease in late 2023. Gross Domestic Product (GDP) for the final quarter of 2023 annualized at 3.3%, exceeding expectations, while estimates by the Atlanta Fed pointed to the first quarter (Q1) growth that is on track to hit an annualized rate of 2.9%. The February Consumer Price Index was higher than expected at 3.2%, while core inflation annualized at 3.8%. The U.S. Federal Reserve's (Fed) preferred Personal Consumption Expenditures (PCE) annualized at 2.5%, in line with expectations. Non-farm payrolls increased by 275,000 – ahead of forecasts – though January figures were revised sharply lower, while the unemployment rate hit a 2-year high of 3.9%.

Though the rate-setting Federal Open Market Committee kept rates unchanged, expectations shifted markedly throughout the quarter as an optimistic Treasury curve implying between 6 and 7 cuts in early January adjusted to hotter economic data. Eurozone GDP grew at an anemic 0.5% in 2023, with a sharp deceleration in the fourth quarter. The U.K. fared even worse, sliding into a technical recession after two consecutive quarters of negative growth. The European Central Bank left interest rates on hold despite cutting its forecasts for inflation and growth. The Bank of England also kept policy rates unchanged for a fifth consecutive meeting, though signalled that multiple rate cuts are likely later in the year.

The Bank of Japan raised rates for the first time since 2007, the last major central bank to end its negative interest rate policy, while indicating that the pace of bond purchases would remain unchanged. Chinese industrial production and factory order data showed signs of recovery, offering policymakers some respite as the People's Bank of China vowed to support a still struggling economy.

The U.S. Dollar rallied against all G7 currency peers; the slide on the Swiss Franc and Japanese Yen approximated double digits. Sovereign bonds sank in the U.S. and Europe as rates continued to rise. Gold rallied to an all-time high as geopolitical risks escalated in the Middle East and across the globe, while Copper prices recovered after Chinese smelters, which process approximately half of global mining output, agreed on a joint production cut.

Crude oil and distillates continued to rise in the wake of ongoing turmoil in the Middle East, while OPEC+ extended production cuts. Natural gas prices sank to an inflation-adjusted 30-year low as relentless output continued to flow, largely as a byproduct of crude oil production in the U.S. Benefitting from cheap natural gas prices, abundant production pushed corn, wheat, soybeans and soy meal prices lower. Cocoa prices continued to soar and hit an all-time high on weather-related disruptions caused by El Niño.

Japanese stocks rallied to an all-time high, exceeding its 1989 peak, as the Yen slid in the run-up to the BoJ's decision to end its era of negative interest rates. Strong corporate results led by its retail and banking sectors have driven the Spanish IBEX 35 Index to a six-year high. After a strong corporate earnings season, U.S. large caps continued pushing higher into record territory.

Table 1. Q1 2024 Asset-class Highlights

	Cocoa	Japanese Topix	WTI Crude Oil	Cotton	European Equities	S&P 500	Gold	U.S. Dollar	U.S. 30y Treasury	Japanese Yen	Platinum	Soymeal	Carbon Emissions
Q1 Returns	142.9%	17.4%	17.0%	12.1%	12.0%	8.8%	6.0%	3.6%	-3.5%	-8.1%	-9.6%	-10.8%	-22.8%
Annualized Volatility	45.8%	12.6%	25.1%	24.7%	10.1%	10.6%	10.7%	4.9%	10.4%	8.0%	25.3%	19.9%	42.9%
Maximum peak to Trough Loss	-8.6%	-3.1%	-7.4%	-10.0%	-2.6%	-1.8%	-4.3%	-2.1%	-5.5%	-8.2%	-12.9%	-14.2%	-34.5%

Source: Data from Tiingo. Using continuous futures contracts. Returns are expressed in USD. European Equities represent the EStoxx50 Index.

Quarter in Review

In the first quarter, HRAA's risk parity core component delivered the lion's share of returns consistently, while the alpha portion was flat.

Table 2. HRAA Performance Attribution – Q1 2024

Sector	Q4
Bonds	0.2%
Currencies	1.2%
Energies	2.6%
Grains	-0.8%
Indices	1.9%
Metals	-0.4%
Softs	-0.4%
Volatility	-0.2%
TOTAL	**4.1%**

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Analysis by ReSolve Asset Management SEZC (Cayman). Q1 return figures as of March 29th, 2024. Note: Results may differ due to rounding. Performance is expressed in CAD. Strategy attribution is a best effort approximation due to rounding and trade timing, net of all applicable borrowing costs, fees and fund accruals for the period.

Source: Data from Tiingo. Using continuous futures contracts. Returns are expressed in USD. European Equities represent the EStoxx50 Index.

Energies delivered the lion's share of gains, led by long crude oil, gasoline and diesel, and short carbon emissions.

Equity indices offered important returns, driven by long positions in the Japanese Topix, French CAC 40, Italian MIB and Spanish IBEX.

Currencies also produced meaningful profits from short Swiss Franc and Japanese Yen against the U.S. dollar.

Bonds benefitted from short German 30-year Buxl and active trading in U.K. Gilts, partly offset by losses from long 5y and 10y Treasuries.

Grains detracted most, led by longs across bean oil, corn, wheat and soybeans, partially countered by profitable shorts in milling wheat and soy meal.

Metals sustained small losses, led primarily by long silver and short gold. Active trading in copper produced important offsetting gains.

Softs suffered losses driven by short cocoa and sugar, partly countered by long cotton.

Outlook and Positioning

"The U.S. federal government is on an unsustainable fiscal path. And that just means that the debt is growing faster than the economy. So, it is unsustainable. I don't think that's at all controversial. And I think we know that we have to get back on a sustainable fiscal path."

Commissions, management fees and expenses all may be associated with an investment in Horizons ReSolve Adaptive Asset Allocation ETF ("HRAA" or the "ETF") managed by Horizons ETFs Management (Canada) Inc. The ETF is not guaranteed, its value changes frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETF. Please read the relevant prospectus before investing.

HRAA is an alternative mutual fund within the meaning of National Instrument 81-102 Investment Funds ("NI 81-102"), and is permitted to use strategies generally prohibited by conventional mutual funds, such as the ability to invest more than 10% of its net asset value in securities of a single issuer, the ability to borrow cash, to short sell beyond the limits prescribed for conventional mutual funds and to employ leverage of up to 300% of net asset value. These strategies will only be used in accordance with the investment objectives and strategies of HRAA.

Certain statements may constitute a forward-looking statement, including those identified by the expression "expect" and similar expressions (including grammatical variations thereof). The forward-looking statements are not historical facts but reflect the author's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking statements. These forward-looking statements are made as of the date hereof and the authors do not undertake to update any forward-looking statement that is contained herein, whether as a result of new information, future events or otherwise, unless required by applicable law.

This communication is intended for informational purposes only and does not constitute an offer to sell or the solicitation of an offer to purchase exchange traded products (the "Horizons Exchange Traded Products") managed by Horizons ETFs Management (Canada) Inc. and is not, and should not be construed as, investment, tax, legal or accounting advice, and should not be relied upon in that regard. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies. These investments may not be suitable to the circumstances of an investor.

All comments, opinions and views expressed are generally based on information available as of the date of publication and should not be considered as advice to purchase or to sell mentioned securities. Before making any investment decision, please consult your investment advisor or advisors.

Published April 30, 2024