



Global X Active Canadian Bond ETF (HAD)

Market Overview

North American bond yields were generally higher, and the yield curve steepened over the second quarter. The Bank of Canada (BoC) reduced its target for the overnight rate to 4.75% from 5% in June. The economy was operating in excess supply and inflation continued to move lower giving the BoC more confidence it would be able to achieve its 2% inflation target over time. As a result, the BoC's Governing Council said monetary policy no longer needed to be as restrictive and cut 25 basis points (bps). Inflation has come down from the highs of 2022 and the breadth of price increases has narrowed. Since the start of the year, headline inflation declined from 3.5% to 2.9% and core inflation on average fell by 70 bps to 2.9%. However, investors were disappointed in June with the latest inflation print as it bounced slightly higher after falling for four consecutive months. The market is now only expecting the BoC to cut rates twice in 2024 to 4.25%, with the next move anticipated in September. At one point, investors were looking for an additional 75 bps in cuts before year-end.

In this environment, mid-term Provincial spreads declined by 4 bps to 55 bps and corporate spreads narrowed by 4 bps to 149 bps.

Quarter in Review

HAD's credit overweight was positive and came from the yield carry in the portfolio, sector allocation and security selection. However, HAD's selection of Federal and Provincial bonds subtracted from the performance. Sector allocation to Financial and Real Estate were positive contributors to performance. Security selection also helped and came from the HAD's positioning within the Financial, Real Estate, and Infrastructure sub-sectors.

HAD took profits from several expensive corporates that had performed well. The Sub-Advisor was also selective in the primary market to take advantage of new issue concessions. HAD bought TD Bank Non-Viability Contingent Capital (NVCC), Wells Fargo, Reliance, Sun Life Financial, Federation des Caisses Desjardins, Bell Canada, Choice Properties, RioCan Real Estate, Eagle Canada credit card trust, Coastal Gas Link, CIBC NVCC, North West Redwater, GMF Canada leasing trust, BMO NVCC, Canadian Western Bank and Pembina Pipeline. In the quarter, HAD's selection of Banks, Energy, and Real Estate issuers provided added value.

Outlook and Positioning

The BoC began the process of loosening monetary policy, and the Sub-Advisor expects this to continue in 2024 and into 2025. It will not be a straightforward exercise where the BoC cuts at every meeting until it gets to a neutral level. The Sub-Advisor expects stops and starts as the economy is not falling off a cliff and there are still risks to the inflation outlook. The U.S. economy has been more resilient than Canada, but it is also starting to show signs of weakening which will eventually lead to an interest rate cut from the Fed. Restrictive policy is working in both countries but there are long and variable lags. The Sub-Advisor expects a heightened level of interest rate volatility as the market transitions to lower rates, which will provide trading opportunities. Elevated bond supply and geopolitical events will also contribute to this environment.

Portfolio duration ended the quarter around 7.44 years. HAD has a modest overweight to credit with a focus on high-quality names. Yield at quarter-end was approximately 4.41%.



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