



# Global X ReSolve Adaptive Asset Allocation Corporate Class ETF (HRAA)

## Market Overview

Recent data has pointed to a slowdown in the U.S. economy. In the first quarter, Gross Domestic Product (GDP) was revised to 1.3%, underscored by lower consumer spending, while the Institute for Supply Management’s (ISM) manufacturing purchasing manager’s index (PMI) dipped further into contraction. Labour market conditions have begun to deteriorate, with a decline in full-time employment, and an uptick in part-time payrolls, major inconsistencies between the household and establishment surveys by the Bureau of Labor Statistics (BLS), and an increase in the unemployment rate to 4.0%. The inflation picture has also grown increasingly complex, with hotter figures earlier in the quarter giving way to deceleration in June.

The rhetoric emanating from the U.S. Federal Reserve (Fed) once again seesawed throughout the quarter; though interest rates were left unchanged, policymakers signalled a likely decrease before year-end. The Bank of Canada was the first G7 nation to lower policy rates, followed shortly after by the European Central Bank. The Bank of Japan announced a reduction in the purchase of government bonds while keeping rates unchanged, though policymakers discussed a possible increase in policy rates as a depreciating Yen heightens inflationary pressures.

In yet another sign of the confidence crisis in leadership across the West, European Union parliamentary elections saw anti-establishment parties increase their share of seats to 25%. Though the governing coalition remains in power, several key pieces of the EU’s legislative agenda are now threatened including policies related to climate change, immigration, and opposition to Russia’s invasion of Ukraine. Incumbents in Germany and France were especially weakened, prompting the French President to dissolve his parliament and call for fresh elections. The Euro fell, along with French and Italian bonds, while major European equity indices suffered large losses.

U.S. Treasuries suffered as stickier inflation persisted, though less than their European counterparts. The inversion of the yield curve, as measured by the spread between 2- and 10-year U.S. bonds, has now reached its longest stretch on record. U.S. large-cap equities continued marching higher, led by technology names, while small caps sold off. The top 10 stocks in the S&P 500 now make up a record-high 35% of the index. Japanese equities saw small losses, in the wake of the record-breaking rise in the previous quarter. Crude oil was flat, while distillates were down, and natural gas bounced aggressively after falling by more than 90% over the past two years. Agricultural commodities were broadly down, aside from the strong rally in coffee. And though the U.S. Dollar continued marching higher, gold and silver experienced major gains, driven in part by large purchases by central banks (most notably the People’s Bank of China).

**Table 1. Q2 2024 Asset-class Highlights**

	Robusta Coffee	Natural Gas	Silver	Copper	Nasdaq	U.S. Dollar Index	US 30y Treasury	European Equities	German 30y Buxl	Japanese Yen	Cocoa	Corn
Returns	21.7%	19.1%	16.2%	9.9%	6.6%	1.6%	-1.8%	-3.2%	-5.2%	-7.1%	-10.4%	-10.9%
Annualized Volatility	43.3%	60.6%	38.4%	26.8%	14.6%	5.4%	12.0%	13.2%	17.2%	9.4%	94.7%	20.8%
Maximum Peak to Trough Loss	-21.7%	-20.2%	-11.0%	-14.1%	-7.0%	-1.9%	-5.8%	-5.0%	-7.5%	-7.2%	-37.3%	-14.5%

Source: Data from Tiingo as at June 28, 2024. Using continuous futures contracts. Returns are expressed in USD. European Equities represent the EStoxx50 Index.



## Quarter in Review

The strategy rose by 3.6% in the second quarter, primarily driven by active exposures in softs, long U.S. dollars against major currencies, and short government bonds. The alpha component delivered the lion's share of returns, while the risk parity core was flat.

**Table 1. HRAA Performance Attribution – Q2 2024**

Sector	Returns
Bonds	0.6%
Currencies	0.8%
Energies	-0.1%
Grains Grains	0.3%
Indices	0.2%
Meats	0.0%
Metals	0.1%
Softs	1.8%
Volatility	-0.1%
<b>Total</b>	<b>3.6%</b>

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Analysis by ReSolve Asset Management SEZC (Cayman). Q2 return figures as of June 28, 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.

**Softs** produced most gains, led by active trading in sugar and cocoa, and long coffee.

**Currencies** generated profits primarily from short Japanese Yen, and smaller contributions from short Swiss Franc and Canadian Dollar, all against the U.S. Dollar.

**Bonds** benefitted from short German 10-year Bunds and 30-year Buxls, as well as active trading in 30-year Treasuries.

**Grains** delivered small gains, where important profits from long soymeal and milling wheat, and short bean oil and corn, were partially offset by losses from active trades in wheat.

**Equity** indices also had a minor positive contribution; gains from shorts in EStoxx50 and French CAC40, and long Hang Seng, were mostly countered by losses from longs in the Russell 2000, Japanese TOPIX and Italian MIB, as well as short U.K. FTSE.

**Metals** produced a marginal contribution, due to profits from long gold, silver and platinum being offset by short copper.

**Energies** also contributed marginally, with losses from active trades in Brent crude and gasoline mostly countered by profitable active trading in natural gas.



## Outlook and Positioning

Momentum appears to have decidedly shifted in favour of Russia in the war in Ukraine, but the risks of miscalculation and a larger conflagration continue to rise. Russia blamed the U.S. and vowed to retaliate after Ukraine used cluster bombs to attack a beach in Crimea, leading to civilian deaths, while President Biden is reportedly considering allowing U.S. military contractors to fight in Ukraine. According to NATO Secretary General Jens Stoltenberg: "Across Europe and Canada, NATO Allies are, this year, increasing defense spending by 18%, and 23 allies are going to spend 2% of GDP or more on defence".

The U.S. federal budget deficit is expected to balloon to US\$1.9 trillion (against previous expectations of US\$1.5 trillion), according to the Congressional Budget Office. It's [hard to overstate just how unprecedented the scale of U.S. fiscal stimulus is at the moment](#). Not only is the deficit massive for a non-crisis period, but its financing is almost entirely via very short-term issuance, which has never been the case before in a non-crisis time. Research by the Cleveland Federal Reserve suggests inflation may not return to the 2% target until mid-2027. The widening gap between mean and median long-term inflation expectations, measured by the University of Michigan, is yet another sign of the challenge faced by policymakers.

The structural deflationary forces related to demographics and technology-driven productivity gains that have prevailed at least over the last two decades, and arguably much longer than that, are now increasingly challenged by a confluence of cyclical drivers and geopolitical risk. Conflict and potential for escalation across Europe, the Middle East and Asia, rising defense spending, loose and accelerating fiscal policy, and a fragmenting world order pose a substantial upside risk to inflation in the coming years.

Commissions, management fees (including performance fees) and expenses may all be associated with an investment in the Global X ReSolve Adaptive Asset Allocation Corporate Class ETF ("HRAA" or the "ETF") (formerly Horizons ReSolve Adaptive Asset Allocation ETF) managed by Global X Investments Canada Inc. The ETF is an alternative mutual fund within the meaning of National Instrument 81-102, Investment Funds, and is permitted to use strategies generally prohibited by conventional mutual funds and ETFs, such as borrowing cash, selling securities short, and employing leverage of up to 300%, amongst others. The use of these strategies may accelerate the risk associated with the ETF. The ETF is not guaranteed, its values change frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETF. Please read the relevant prospectus and its risk disclosure before investing.

The sub-advisor and manager have a direct interest in the management fees and performance fees of the Global X Funds, and may, at any given time, have a direct or indirect interest in the Global X Funds or its holdings.

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 investment products (the "Global X Funds") managed by Global X Investments 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 August 7, 2024