



# Horizons Mid-Term U.S. Treasury Premium Yield ETF (MPAY & MPAY.U)

## Market Review

During the first quarter (Q1) of 2024, U.S. equities (as measured by the S&P 500® Index) were up 10.6%. Economic data both domestically and abroad supported the narrative of a soft landing, boosting investor sentiment and putting downward pressure on equity market volatility.

The U.S. Federal Reserve (Fed) kept rates paused at their existing 5.5% level as expected but their language became more hawkish in tone, furthering the “higher for longer” discourse. Combined with stickier inflation data, this contributed to a shift in the number of implied rate cuts in 2024 down to no more than three cuts. Towards the end of 2023 markets had been pricing in at least five cuts. Additionally, nonfarm payrolls beat expectations in February and the unemployment rate came in as expected at 3.7% indicating the labour market’s resilience despite stickier inflation and higher rates.

## Quarter in Review

During Q1, the fund held iShares 20+ Year Treasury Bond ETF (TLT) and the Horizons 0-3 Month U.S. T-Bill ETF (UBIL.U) (*currently known as Global X 0-3 Month U.S. T-Bill ETF*). The volatility in broad markets has contributed to the fund’s ability to generate sufficient yield as it manages the volatility of the underlying TLT position.

The combination of the call and put writing program places the fund in a unique position to benefit from movements in either direction of the underlying by adjusting the put-call ratio based on market conditions. The strategy may underperform during sharp market moves, but may generally outperform in flat and or slow markets, particularly when there is high volatility due to the increased premiums that can be generated on the option writing program.

## Outlook and Positioning

Into the next quarter, the covered call strategy is favourably positioned to potentially provide value from a yield, hedging and upside capture perspective in the current environment. Each month, call options are dynamically written on TLT. In Q1, the fund wrote slightly out-of-the-money (OTM) options on the iShares 20+ Year Treasury Bond ETF, which yielded roughly 4.5% each month for Q1. The premiums generated from the option writing strategy have remained steady since the inception and may continue for the next quarter.

Commissions, management fees and expenses all may be associated with an investment in the Horizons Mid-Term U.S. Treasury Premium Yield ETF (“MPAY” 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.**

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.

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