



Global X Active Canadian Bond ETF – HAD

Quarterly Commentary: Q3 2025

Market Review

The third quarter of 2025 saw a moderation in economic momentum in North America, prompting central banks to resume easing after lengthy periods on hold. While inflation concerns remain, softening labour markets have shifted the policy focus from combating inflation to supporting growth and employment. Despite lingering fiscal and macro uncertainty, the market tone in Q3 was decidedly risk-on as credit and equity markets performed well in anticipation of Fed rate cuts.

In Canada, the yield curve steepened modestly, led by a lower front end. After holding rates at its previous three meetings, the BoC cut its overnight rate by 25 basis points to 2.50% in September, citing deteriorating labour market conditions and easing inflation pressures. Economic data was weak as Q2 GDP contracted by 1.6% due to a large decrease in exports, and the unemployment rate hit a new cycle high at 7.1%. While headline inflation was 1.9% in August, preferred measures of core inflation remained around 3%; however, Governor Macklem stated that the upward inflation momentum seen earlier in the year has dissipated and that the Bank sees underlying inflation closer to 2.5%. He also emphasized that the Bank will be looking shorter term than usual to respond to any sudden further weakness. At the end of the quarter, markets were pricing the BoC to cut an additional 25 basis points by year-end.

U.S. rates outperformed Canada during the quarter as yields fell across the curve in a broadly parallel shift; however, the short end has rallied significantly year-to-date while long rates are little changed amidst fiscal deficit and inflation concerns, as well as questions concerning the future of Fed independence. The Fed delivered a 25 basis points rate cut at its September meeting, the first of 2025, lowering the target for the fed funds rate to 4.00-4.25%. The move followed a tick up in the unemployment rate to 4.3% and a series of substantial downward revisions to employment numbers for the 12-month period ending March 2025; however, Q2 GDP was revised higher to 3.8%, the latest testament to the resilience of the world's largest economy. Although U.S. inflation remains sticky with core PCE near 3%, Chair Powell stated that the balance of risks has shifted, and that the downside risks to employment now outweigh the upside risks to inflation. As of the end of Q3, market expectations reflected another one-to-two cuts by the Fed in 2025.

Amidst this backdrop, mid-term provincial spreads narrowed by 5 basis points to 39 basis points during the quarter (13 basis points year-to-date), while mid-term corporate spreads moved in by 12 basis points to 107 basis points during the quarter (17 basis points year-to-date).

Portfolio Performance and Positioning

The fund returned 1.66% net of fees for the second quarter vs 1.51% for the benchmark, generating added value of 15 basis points. Contribution from duration was positive, partially offset by curve positioning, but we benefitted from our credit overweight, driven by the carry in the portfolio, sector allocation, and security selection.

Our allocations to corporate and municipal bonds were positive contributors to performance, slightly offset by our allocation to provincial bonds. Within our corporate allocation, outperformance came primarily from our positions in Financials and Real Estate.

With respect to security selection, we added value through our selection of corporate and municipal securities, while selection of federal and provincial securities detracted from performance. Within our corporate exposure, selection alpha came primarily from names within the Financial, Infrastructure, Real Estate, and Securitization sub-sectors.

During the quarter, we took profits on several names that had performed well and were active in the new issue market, purchasing issues from Trillium M Project Co GP, Royal Bank (bail-in), Le Carrefour Laval Rec, Sienna Senior Living, Dream Summitt, Glacier, Hyundai Capital Canada, Ford Credit Canada, Sunlife Financial, Keyera, and CHIP Mortgage Trust.

Our weighted duration deviation on corporate bonds was unchanged for the quarter at 0.31; our corporate exposure remains below normal levels, reflecting our view that credit spreads do not offer attractive compensation given the risk environment. The bond market was volatile and provided us with opportunities to adjust duration relative to the



benchmark. Our active duration increased slightly from 0.17 to 0.18, and we adjusted duration tactically over the period to take advantage of rising rates. At the end of the quarter, the carry in the portfolio was 19 basis points vs 22 basis points at the end of Q2.

Outlook

We expect the Canadian economy to grow below potential over the next 12 to 18 months but to avoid a recession – growth will be challenged in the near term but should gradually return towards 1%. We expect core inflation to slow as well, allowing the Bank to cut further towards 2%.

Although trade-related risks remain, global growth has been more resilient than anticipated in 2025. Canada currently enjoys a comparatively lower tariff rate than global competitors due to exemptions under CUSMA, but there is lack of clarity concerning the upcoming renewal in 2026 which could see Canada's tariff rate materially increase; further, the US imposed tariffs on Canadian soft-wood lumber at the end of the quarter, suggesting that trade tensions have not abated. Significant spending on Canadian infrastructure projects should support long-term investments and sentiment, while spillover effects from high US spending should be net positive. In addition to CUSMA uncertainty, growing deficits and interest burdens, as well as the impact of higher rates on interest-sensitive sectors (e.g. housing and mortgage refinancing), could continue to weigh on the economy, and any slowdown in US growth would likely impact Canada via contagion effects.

We are currently positioned for lower rates at the front end of the curve and are long duration overall – short rates will be pulled in the direction of the BoC, but long-term rates will be driven by inflation, bond supply, fiscal policy, and global growth/yields. We maintain a very modest overweight in corporate bonds with a focus on short-dated issues where carry is attractive, and on quality trades where relative spreads are more appealing; however, we are cautious as spreads have narrowed considerably and are at the low end of their range post Global Financial Crisis.