



Global X Active Preferred Share ETF – HPR

Quarterly Commentary: Q2 2025

Market Review

The second quarter began with significant market volatility as the US administration unveiled their plan for reciprocal tariffs in early April, causing US equity indices to fall and credit spreads to widen in both Canada and the US. Markets gradually settled during the quarter after a series of tariff deadline extensions, walk-backs, and a general cooling in the tariff rhetoric. By the end of June, equity indices had regained their highs, and credit spreads finished the quarter tighter than where they started the year. Geopolitical risk remained at the forefront as conflict broke out between Israel and Iran, but the market reaction was muted, other than a brief spike in the price of oil which subsequently reversed following a ceasefire agreement.

The Federal Reserve remained on hold in Q2 despite vocal calls from the President to cut rates. With employment stable and inflation cooling (but still elevated), the fear of tariff-induced price increases in the back half of the year kept the Fed on the sidelines. The market is looking for the Fed to cut rates 65 basis points for the rest of the year, down from early April when investors had priced in over 100 basis points of cuts.

In Canada, bond yields moved higher across the curve, led by the long end, while the yield picture in the US was more mixed. The long end of the US curve sold off on the prospect of higher sustained fiscal deficits while short and mid-term rates fell.

After cutting 50 basis points in the first quarter, the Bank of Canada held its policy rate at 2.75% in Q2, keeping the policy rate in the middle of its estimated neutral range of 2.25% - 3.25% and electing to take a wait-and-see approach with respect to the impacts of tariffs. Economic data in Canada was mixed, with the unemployment rate higher, Q1 GDP surprising to the upside, and core inflation sticky at 3%. At the end of the quarter, markets were looking for the Bank to cut rates a further 35 basis points in 2025, down from the 70 basis points that were priced in early April. The Canadian dollar appreciated vs. the USD during the quarter, rising almost 6% to 0.73 from 0.69.

Spreads in Canada narrowed during the quarter despite the April tariff volatility. Mid-term provincial spreads narrowed by 9 basis points to 42 basis points and are in by 8 basis points year-to-date, while mid-term corporate spreads narrowed by 16 basis points to 118 basis points and are in by 5 basis points year-to-date.

The Canadian preferred share market continued to outperform in Q2 despite a rough start in April. The S&P/TSX Preferred Share Index returned 4.59% while the Solactive Laddered Canadian Preferred Share Index (100% rate reset) returned 5.98%. Strong credit tone in May and June, higher 5-year Canada rate and preferred shares redemptions were the main positive factors in Q2. Floating rate and fixed reset issues outperformed in Q2, especially the ones with low reset level, while fixed rate perpetual issues underperformed. LRCN and Hybrid issues continued to underperform the preferred shares market in Q2 but LRCN issues with low reset level performed strongly. Financial services, telecommunication and insurance sectors outperformed in Q2 while banks underperformed.

Portfolio Performance and Positioning

HPR outperformed in Q2 with a return of 4.95% net of fees vs the benchmark of 4.59%. On a year-to-date basis, the strategy is up 7.28% net of fees. Our overweight position in fixed reset issues that trade at discount in telecommunication, energy, insurance and utility sectors explained most of the outperformance in Q2. Our overweight position in LRCN, Hybrid and our underweight position in fixed rate perpetual reduced the outperformance.

Over the last quarter, we redeployed the cash from fixed reset preferred share redemptions mostly into institutional preferred and hybrids. We also increased our positioning into insurance and telecommunication fixed reset issues with a focus on low reset issues and in fixed reset issues that will reset in 2026, in 2027 and in 2029. We bought the new Telus hybrid issue and the new IA Financial institutional preferred share, both issued at attractive level.

Outlook

We expect the Canadian economy to be soft over the next 12 to 18 months but to avoid a severe recession, with growth trending in the 1% area. We expect inflation to slow gradually, allowing the Bank to cut further towards the bottom of the neutral range at 2.25%. Trade tensions with the US will remain elevated in the near term but should ease gradually



through negotiation; however, impacts on sentiment and global growth may be more pronounced, and weigh further on the Canadian economy. Fiscal spending and potential benefits of a comparatively lower tariff rate on Canadian goods will partially offset some of the headwinds.

While tariffs should continue to play a significant role in determining Canadian monetary and fiscal policy, the rhetoric has eased notably, and other uncertain aspects of US policy, such as the Big Beautiful Bill, have come to the forefront. The net stimulative nature of the bill and the prospect of higher government bond supply in both countries could pressure long-term rates higher. We expect the Bank of Canada and the Fed to cut rates moderately to offset any weakness, but their decisions must also weigh the trade-off between soft growth and sticky inflation which may be exacerbated by increased spending and tariffs.

Short rates will be pulled in the direction of the Bank of Canada, but longer rates will be driven by inflation, bond supply, fiscal policy, and global growth/yields. We expect market volatility to remain elevated which will present us with trade opportunities. In credit, we will continue to look for attractive opportunities to add but remain cautious as spreads have narrowed and are at the low end of the historic range. Our focus remains on high quality sectors and names in which we believe there is value.

Preferred share redemptions should continue to support the Canadian preferred share market over the next few quarters. The average yield remains attractive and will continue to increase over the next 2 years as fixed reset issues reset at more attractive 5-year Canada rate level. Volatility could come back subject to political and geopolitical risks in an environment of low Canadian growth and above target inflation level. Flow of funds could remain challenging especially after a strong performance in the first half of 2025. We would be ready to add risk in our portfolio if opportunities arise and we will be ready to take profit if needed. In this environment, our focus remains on high quality issuers, and we think the best risk/reward opportunities are in fixed reset issues that are providing a high current yield and that will reset in 2029 and in 2030.