



Global X Active Hybrid Bond and Preferred Share ETF – HYBR

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 Bank of Canada (“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 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-two cuts by the Fed in 2025.

Amidst this backdrop, credit continued to outperform with mid-term corporate spreads tightening 12 basis points to 107 basis points. Risk assets were also supported by cash being allocated to fixed income as investors looked to lock in attractive coupons. Mid-term provincial spreads narrowed by 5 basis points to 39 basis points during the quarter.

The Canadian preferred share market continued to outperform in Q3. The S&P/TSX Preferred Share Index returned 4.25% while the Solactive Laddered Canadian Preferred Share Index (100% rate reset) returned 4.79%. Strong equity and credit tone, especially lower in the capital structure, and continued preferred share redemptions were the main positive drivers in Q3. Fixed rate perpetual and floating rate preferred shares outperformed in Q3. Within the rate reset market, issues with lower reset levels that trade at discount outperformed. On average, LRCN and Hybrid issues performed in line with the preferred share market despite significant hybrid issuance and outperformance from LRCN issues with lower resets. Telecommunication, utilities, and financial services outperformed in Q3 while banks underperformed.

Portfolio Performance and Positioning

The fund returned 4.62% net of fees for the second quarter vs 4.79% for the benchmark, generating negative value of -17 basis points on a net basis. On a year-to-date basis, the strategy is up 12.19% net of fees. Our overweight position in fixed rate perpetual, our overweight position in fixed reset issues that trade at discount in insurance, telecommunication and utility sectors were positive performance contributors in Q3. Our underweight position in real estate (mostly) and in energy were negative contributors in Q3.



Over the last quarter, we continued to focus our investment on quality issuers with average reset levels. We increased our allocation to institutional preferred shares, hybrids, fixed rate perpetual, and fixed reset issues that will reset in 2028, 2029 and 2030. We also increased our allocation to energy and insurances issuers during the quarter. We bought the new Keyera hybrid issue and the new Power Corporation fixed rate perpetual, both issued at attractive levels.

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, 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 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 months. The average yield remains attractive and will continue to increase over the next two years as fixed reset issues reset at higher 5-year Canada rate levels; however, volatility could return subject to political and geopolitical risks in an environment of low Canadian growth and above target inflation. Flow of funds could remain challenging, especially after strong performance over the last two years. We will be ready to add risk in the portfolio should opportunities arise, and we will be ready to take profit as needed. In this environment, our focus remains defensive and toward high-quality issuers; we think the best risk/reward opportunities are in fixed reset issues that will reset in 2029 and 2030 and which have mid reset levels and offer high current yields.