Global X Active Corporate Bond ETF – HAB
Quarterly Commentary: Q1 2026

Market Review

The first quarter of 2026 was defined by a sharp shift in market sentiment as the early-year risk-on tone gave way to a broad-based selloff following the outbreak of the US-Iran conflict at the end of February. Prior to the conflict, markets had already been contending with soft economic data, an AI-driven software selloff, and stress in the private credit space. Investor concerns were then amplified by the prospect of a regional war, which sent oil prices surging higher, with Brent crude rising from roughly $72 to over $112 per barrel during March.

Despite intra-quarter volatility, the mid and long-term portions of the Canadian yield curve were little changed on the quarter, while the short end sold off due to markets pricing in central bank rate hikes in response to the energy shock. US yields rose more broadly but the move was similarly biased to the short end as the curve bear flattened. Credit spreads tightened early in the quarter but reversed course beginning in February as concerns around tariffs, private credit, and the eruption of the conflict weighed on sentiment. Despite widening during the quarter, credit was quite resilient while rates and equity markets exhibited higher volatility. Over the period, Canadian mid-term provincial spreads widened by 3 basis points to 37 basis points, while mid-term corporate spreads widened by 7 basis points to 107 basis points.

In Canada, the BoC held its policy rate at 2.25% at both the January and March meetings, signalling it would look through the near-term inflation impact of higher energy prices while remaining vigilant for broadening price pressures. The Federal Reserve likewise held the fed funds rate at 3.50% to 3.75% at both meetings, with the dot plot continuing to signal one cut in 2026, though rising oil prices and sticky inflation complicated the outlook.

Economic data painted a soft picture in both countries. Canadian Q4 2025 GDP contracted 0.6% annualized, weighed down by inventory drawdowns, while full-year growth of 1.7% was the weakest since 2020. Headline CPI eased to 1.8% in February, with core measures near 2.3%, and the unemployment rate rose to 6.7%. In the US, Q4 GDP was revised down to just 0.7% annualized, CPI held at 2.4%, core CPI at 2.5%, and the unemployment rate edged up to 4.4% as payrolls fell 92,000 in February.

Portfolio Performance and Positioning

In the first quarter of 2026, the fund returned 0.13% net of fees versus 0.14% for the benchmark.

The Fund's absolute return was positive for the quarter. Duration positioning had negligible impact while curve was a positive contributor. The Fund benefitted from its credit positioning, with sector allocation, security selection, and carry all contributing positively.

Sector allocation was driven almost entirely by corporates, with federals and municipals negligible. Within corporates, Infrastructure and Energy were the most significant contributors on allocation, while Communication detracted. With respect to security selection, corporates and federals contributed roughly equally, with municipals negligible. Within our corporate exposure, Communication was the leading positive contributor on selection, followed by Real Estate, while Infrastructure, Energy, and Industrial were the primary detractors.

During the quarter, we increased our underweight corporate position from -0.22 to -0.35 on a WDD basis as, despite recent widening, we still do not view spreads as attractive given the risk environment. Further, issuer dispersion is also near historic lows, so the fund’s corporate exposure is concentrated in the highest quality names, particularly at the front-end of the curve where carry is attractive and relative spreads are more appealing.

During the quarter, we took profits on several names that had performed well and we participated only selectively in the primary market, purchasing bail-in issues from TD, CIBC, and National Bank, as well as issues from Desjardins, Montreal Fuel Facility, Inter Pipeline, Reliance LP, and Metro. We also purchased the new Rogers hybrid issue which was issued at an attractive level.

The bond market was volatile during the quarter and provided us with opportunities to adjust duration relative to the benchmark; active duration was unchanged at 0.07 for the quarter despite intra-quarter trading. At the end of the quarter, the carry in the portfolio was 8 basis points, down from 12 basis points at the start of the period.

Outlook

We expect the Canadian economy to achieve modest growth of 1 to 1.5% over the next 12 to 18 months; however, the outlook has been complicated by the conflict in Iran and its impact on global energy markets. We expect core inflation to remain above target in the near term, driven in part by second-order effects of higher energy prices, before gradually returning towards 2%. We expect the Bank of Canada to remain on hold at 2.25%, though the energy shock has effectively taken rate cuts off the table and tightening is possible should inflation expectations move materially higher.

The Iran conflict and associated oil and gas supply disruptions represent the most significant near-term risk to the outlook for rates and spreads. Higher energy prices could be a net positive for the Canadian economy but are negative for the US and energy-importing regions, and any escalation could further tighten financial conditions globally. Despite these concerns, we anticipate the US to look to de-escalate the conflict in the near-term as the negative impacts on the domestic economy become untenable. Uncertainty concerning the upcoming CUSMA renewal remains a key risk, with the potential for Canada's tariff rate to increase materially. Growing deficits and higher bond supply, the lead-up to US mid-term elections, and the impact of higher rates on interest-sensitive sectors could also weigh on the economy.

We are currently long duration, particularly at the front end of the curve where we expect front-end rates to outperform as the Bank holds steady, contrary to market expectations. The market has priced in a material move higher in implied policy rates following the onset of the Iran conflict, but we view this repricing as overdone and see good value in the front-end of the curve.

We remain underweight corporate exposure and are exercising caution given the potential for further spread widening; however, we still see value in corporate credit as break evens remain healthy, particularly at the front end of the curve. Spreads have widened modestly year-to-date but have so far been resilient, and we will look to add to our position should opportunities arise at more attractive levels.