



Global X Active Canadian Bond ETF – HAD

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

The fund returned 0.18% net of fees for the first quarter of year vs 0.23% for the benchmark.

The Fund's absolute return was positive for the quarter and outperformed the benchmark on a gross basis. Duration detracted slightly but was more than offset by a positive contribution from curve positioning. The Fund benefitted from its credit underweight, primarily via carry and security selection while sector allocation was the largest detractor.

Sector allocation was negative across corporates, municipals, and provincials, while federals were neutral. Within corporates, Infrastructure and Energy were positive on allocation, while Communication was the primary detractor. With respect to security selection, selection was strongly positive in corporates and municipals but negative in federals and provincials. Within our corporate exposure, Financials was the dominant positive on selection, followed by Real Estate and Communication, while Securitization and Energy were slight detractors.

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, Reliance LP, and Metro. We also purchase the new Rogers hybrid which was issued at an attractive level.

At the end of the quarter, our WDD on corporate bonds was 0.22, down from 0.31 at the beginning of the quarter. Our corporate exposure remains well below normal levels, reflecting our view that credit spreads are tight and do not offer attractive compensation given the risk environment. The bond market was volatile during the quarter and provided us with opportunities to adjust duration relative to the benchmark. Our active duration decreased slightly from 0.23 to 0.22, with our exposure mainly concentrated at the front-end. At the end of the quarter, the carry in the portfolio was 18 basis points, down from 20 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 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. Spreads have widened year-to-date but credit has remained quite resilient; we will look to add to our position should opportunities arise at more attractive levels but remain cautious given the elevated risk environment.