



Global X Active Global Fixed Income ETF – HAF

Quarterly Commentary: Q1 2026

Market Review

The first quarter of 2026 was characterized by a more mixed and transitional market environment, as investors weighed early year growth concerns against persistent geopolitical and inflation related risks. While risk sentiment remained broadly constructive at the start of the year, it became more uneven as the quarter progressed, reflecting heightened sensitivity to macro data and global developments. Central banks remained a focal point, with both the Federal Reserve and the Bank of Canada holding policy rates steady while emphasizing a data dependent approach. Although markets continued to anticipate potential easing later in 2026, near term expectations became more volatile as inflation uncertainty and energy related shocks re entered the narrative.

Across global sovereign markets, rate performance was uneven and increasingly differentiated by region. U.S. Treasuries rallied early in the quarter amid softer economic data before giving back some gains in March as term premia rose. European government bonds and UK Gilts again lagged, constrained by fragile growth dynamics and cautious central bank messaging. In Japan, the yield curve continued to steepen, with long dated yields displaying elevated volatility amid ongoing fiscal concerns and inconsistent auction demand, reinforcing structural pressures that have persisted in the Japanese rates market.

Canadian rates followed a similarly non linear path. Government bond yields declined in January and February as weaker domestic growth data and a steady Bank of Canada supported duration, before moving higher in March, led by the long end of the curve. Rising global energy prices and geopolitical uncertainty pushed term premia higher, resulting in a modest net increase in yields over the quarter and a steeper yield curve by quarter end.

Credit markets began the year on a constructive footing but lost momentum as risk sentiment deteriorated. Canadian investment grade corporate spreads tightened modestly in January before widening meaningfully in February, driven by a risk off backdrop, elevated issuance, and sector specific pressures. Spreads remained wider into March, though conditions stabilized, supported by generally resilient corporate fundamentals and continued investor demand for income.

In emerging markets, hard currency debt performance remained relatively resilient, supported by attractive carry and a still benign global monetary backdrop. While volatility increased later in the quarter alongside broader risk markets, spreads generally remained contained, reflecting selective investor appetite for yield and improving fundamentals in certain sovereign issuers. Overall, EM assets continued to demonstrate durability, though dispersion across countries and sectors increased as macro and geopolitical risks re emerged.

Portfolio Performance and Positioning

Performance and Strategy

The first quarter of 2026 was defined by a severe geopolitical shock in the Middle East, marked by the outbreak of conflict in Iran, which triggered a significant spike in global oil prices. This abrupt energy shock fundamentally altered the macroeconomic narrative, shifting market focus away from the cooling labor dynamics and central bank easing anticipated late last year, toward renewed inflationary fears and heightened volatility.

Global sovereign bond markets faced intense pressure during the quarter, with yield curves across the globe bear-flattening. Yields pushed higher across developed markets as the anticipated pace and depth of monetary easing were aggressively dialed back by investors.

On the credit front, due to geopolitical uncertainty, Investment Grade and High Yield widened. While the energy sector outperformed from the surge in commodity prices, the broader Investment Grade and High Yield markets experienced a repricing as investors demanded higher risk premiums to navigate the current macroeconomic environment.

Despite this highly challenging backdrop of higher rates and wider credit spreads, HAF delivered positive net absolute return of 0.27%, thus adding 0.85% of value-added vs the Bloomberg Global Agg Hedged CAD (benchmark). Our active approach and investment process is a key testament of this outperformance in challenging macro-economic environment.



Outperformance during Q1 was largely driven by our defensive positioning entering the year and proactive duration management and strong security selection. During the quarter, we rotated into Sovereign and State-Owned Enterprises (SOEs) in jurisdictions geographically isolated from the war in Iran, where their economy benefits from a "higher-for-longer" energy price environment. Additionally, we have trimmed risk on the High Yield exposure and increased our allocation to Aerospace and Defense to protect the portfolio against potential spread widening and volatility as global markets digest the impact of the conflict.

Sector-wise, within investment grade, we favor defensive sectors and see good value in the securitization front. We remain selective with high yield issuers and our sector exposure is concentrated in communication, industrial and defense issuer where we see good value.

We continue to be selective on credit, seeking value and standing ready to redeploy as market continue to adjust to weaker growth outlook with wider credit spread. We prefer to remain more defensive on credit and be ready to take advantage of future opportunities.

Outlook

Looking at the broader macroeconomic environment, we remain comfortable with our longer duration bias heading into Q2 2026. While the market's knee-jerk reaction has been to price in inflation, we believe this will eventually lead to lower growth expectations. In our view, higher "pump prices" act as a direct hit against US Consumer Discretionary spending. As this drag weighs on the consumer, we expect the narrative to shift from inflation to a growth slowdown, supporting our long-duration stance. The current restrictive monetary policy in the USA and UK should continue to have an impact on the economy and we expect central bank in those respective countries to continue easing their monetary policy during 2026, overlooking the short-term effect of higher oil price.

The global bond market offers a lot of opportunities, and the asset class is attractive considering higher rates globally. We expect economic softness in the coming quarters, and we prefer duration risk while being selective on credit risk. We also prefer to keep some dry powder to deploy when credit spread will be wider. Starting Q2 2026, the strategy is well positioned to encounter various market environments considering its strong yield carry protection provided by an overall investment grade profile and a diversified source of income. The strategy currently generates a gross yield of 6.91% combined with a duration of 7.12 years with an overall credit rating of BBB+.