



# Global X Active CDN Municipal Bond ETF – HMP

## 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, short-term provincial spreads widened by 1 basis point to 13 basis points, while spreads of short-term rated Municipal issues widened 1 basis point to 16 basis points. Spreads for short-term non-rated Municipal issues outperformed their rated and provincial counterparts, narrowing modestly during the quarter. Short-term corporate spreads widened 9 basis points to 80 basis points over the same period.

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 0.41% net of fees for the quarter vs 0.31% for the benchmark, generating added value of 10 basis points.

Duration was negative for the quarter, partially offset by positive curve positioning. Carry was a significant driver of outperformance, reflecting the portfolio's exposure to higher-yielding non-rated municipal issuers. Sector allocation was the largest detractor overall, driven by the overweight to provincials which are typically longer dated and suffered more due to rising rates. Security selection was the primary contributor to relative performance, more than offsetting the negative allocation.

Municipal sector allocation was negative in aggregate, driven by the underweight in rated issuers including BCMFA, Montreal, Toronto, and York Municipality, while non-rated issuers contributed positively through allocation. Among provinces, Ontario was the primary detractor on allocation, followed by Quebec. With respect to selection, municipal selection was positive, driven primarily by non-rated issuers, while rated issuers including Montreal, York Municipality, Toronto, and South Coast were negative on selection. Provincial selection was a significant positive contributor, led by Ontario.

The bond market was volatile and provided us with opportunities to adjust duration relative to the benchmark. Our active duration decreased slightly from 0.16 to 0.13; at the end of the quarter, the fund was yielding 3.36%, representing carry of 31 basis points over the benchmark.



## 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.