



# Global X Active Preferred Share ETF – HPR

## 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, signaling 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.

The Canadian preferred share market continued to provide positive return in Q1 despite the risk off tone caused by the Middle East conflict. The S&P/TSX Preferred Share Index returned 0.35% while the Solactive Laddered Canadian Preferred Share Index (100% rate reset) returned 2.11%. Robust demand of LRCNs, Hybrids and preferred shares, especially in the first 2 months of the year, and continued preferred shares redemptions more than offset the weaker tone in March. Floating rate and fixed reset preferred shares outperformed in Q1 helped by higher interest rate especially in the front-end of the yield curve while fixed rate perpetual issues underperformed. Within the rate reset market, issues with lower reset level that trade at discount and will reset in 2026 outperformed. Real estate and telecommunication sectors outperformed in Q1 while bank and utility sectors underperformed.

### Portfolio Performance and Positioning

The fund returned 0.73% net of fees for the first quarter vs 0.35% for the benchmark, generating added value of 38 basis points. Our underweight in fixed rate perpetual, our overweight position in telecommunication and our security selection within fixed reset issues that will reset in 2026 explained most of the outperformance in Q1 2026. Our overweight position in Hybrids, LRCNs, as well as underweight position in energy and utilities sectors were negative contributors.

Over the last quarter, we continued to focus our investment on quality issuers. We slightly reduced our overweight position in fixed rate perpetual issues. Late in the quarter, we reduced our allocation in fixed reset issues with low reset level that have outperformed over the recent quarters. We bought the new Rogers Communication hybrid security which was issued at attractive coupon floor and reset level.



## 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.

The average preferred shares yield remains attractive and should continue to increase over the next few years as fixed reset issues reset at higher 5yr Canada rate level. Higher 5yr Canada rate is a net positive for this asset class especially when the credit environment is stable. Volatility could come back subject to political and geopolitical risks and because the pace of preferred shares redemption should considerably reduce in 2026. Flow of funds could exacerbate the volatility especially after strong performance over the last 3 years. We would be ready to add risk in our portfolio if opportunities arise and we will be ready to take profit if needed. In this environment, our focus remains defensive toward high quality issuers, and we think the best risk/reward opportunities are in fixed reset issues with mid reset level that are currently providing a high current yield and that will reset in 2029 and in 2030.