HAF: Global X Active Global Fixed Income ETF

Market Review

The third quarter of 2026 was defined by the return of the energy shock and a pronounced sell-off in global government bond markets. Escalation in the Strait of Hormuz, alongside renewed disruption in the Red Sea, pushed Brent crude from roughly $73 per barrel at the end of June to above $100 in September. As inflation and fiscal credibility concerns resurfaced, central banks turned hawkish: in September alone, the Federal Reserve, the European Central Bank, the Bank of Japan and the Reserve Bank of Australia all raised policy rates, while the Reserve Bank of New Zealand delivered its second hike of the quarter. Yields rose across virtually every developed market curve, with the 10-year US Treasury yield climbing more than 80 basis points to 5.29%, and 10-year Gilt and Bund yields each rising by roughly 70 basis points.

Dispersion across markets was nonetheless significant. France stood out on the downside: as fiscal risk premiums rose, the 10-year OAT-Bund spread widened from 80 basis points to roughly 127 basis points, a level not seen since the euro area sovereign debt crisis of 2011–2012. At the other end of the spectrum, the Japanese 30-year yield was among the most stable globally, rising only about 20 basis points despite the Bank of Japan's hike, while Brazil was the standout outperformer as its central bank continued to cut rates and local yields declined against the global trend.

Credit markets were not spared. After a broad tightening in August, led by High Yield and Emerging Markets, spreads gapped wider in the final weeks of September as the rate shock weighed on risk appetite. US High Yield spreads ended the quarter roughly 40 basis points wider while Investment Grade spreads widened more modestly.

Performance

The Global X Active Global Fixed Income ETF returned -4.62% during the quarter, underperforming the Bloomberg Global Aggregate Hedged CAD benchmark by 1.67%. Despite giving back part of the first half's value added, the strategy remains ahead of its benchmark year-to-date by 1.29%, returning -1.35% versus -2.64%.

Our long-duration bias, a key contributor in Q2, was the main headwind this quarter. We had positioned the portfolio for central banks to look through the transitory effect of higher energy prices; instead, the hawkish turn in September, including the Federal Reserve's hike, weighed on our overweight in US duration, where 2- to 10-year yields rose by 70 to 90 basis points over the quarter.

On the positive side, our strategic positioning on the yield curve helped offset part of the duration drag. Our long-end Japanese exposure held up well relative to other developed markets as the 30-year JGB proved among the most stable globally, while our payer position in New Zealand rates contributed as the Reserve Bank of New Zealand hiked twice during the quarter. Brazil was the standout contributor, as our local-currency exposure benefited from the central bank's continued easing and Brazilian yields declined against the global trend.

Positioning and Outlook

Looking ahead, we believe the Federal Reserve and other major central banks are running a significant risk of a monetary policy miscalculation by focusing too heavily on headline inflation driven by the energy shock. While robust AI-related capital expenditures have helped support the broader economic engine, consumers will inevitably feel the pinch of higher energy prices, corporate profit margins should compress, and higher rates are poised to weigh on more leveraged corporates.

Against this backdrop, we used the sell-off to increase duration. We increased our European exposure, maintained our overweight in US duration. With 10-year US Treasury yields near 5.3% and 10-year Gilts above 5.4%, we see attractive value and remain comfortable maintaining a longer duration bias heading into Q4.

On credit, the late-September widening has begun to restore some margin of safety. Having held dry powder through August, we began deploying it selectively in emerging markets, adding to Colombian energy and utilities and to higher-quality issuers in Chile and Middle East infrastructure. Elsewhere, we exited securitized positions into strength and rotated select High Yield and financial holdings into defensive Investment Grade issuers.

Entering Q4 2026, the strategy is well positioned to navigate a range of market environments, supported by strong yield carry protection, an overall investment grade profile, and diversified sources of income.

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