

# BARRY'S BULLETS

Weekly Commentary for Horizons Tactical Absolute Return Bond ETF (HARB) from DMAT Capital

## Macro Review

- S&P US Manufacturing Purchasing Manager's (PMI) Index fell to 47.9, which was lower than expectations of 48.4.
- S&P US Services PMI rose to 51.4 compared with expectations of 51.3.
- S&P US Composite PMI came in at 50.9 versus estimates of 51.0.
- ISM Manufacturing Index was reported at 47.4 compared with expectations of 47.1.
- ISM Prices Paid Index came in at 45.2, lower than market estimates of 49.5.
- ISM Employment Index rose to 48.1 compared to expectations of 46.5.
- ISM New Orders Index fell to 47.1 versus expectations of 49.1.
- Job Openings and Labor Turnover Summary (JOLTS) was reported at 8,790K, lower than estimates of 8,821K.
- ADP Employment came in at 164K versus expectations of 125K.
- Nonfarm Payrolls came in at 216K, higher than expectations of 175K.
- The Unemployment Rate reported at 3.7% versus expectations of 3.8%.
- Labor Force Participation Rate decreased to 62.5% compared to expectations of 62.8%.
- Average Hourly Earnings rose month-over-month (MoM) by 0.4% compared to expectations of 0.3%.
- Average Hourly Earnings rose on a year-over-year (YoY) basis by 4.1% versus expectations of 3.9%.
- Continuing Claims came in at 1,855K, which was lower than market expectations of 1,881K.
- Weekly Jobless Claims were 202K compared to market expectations of 216K.
- Two-month Nonfarm Payrolls were revised down by 71K.
- ISM Services PMI Index came in at 50.6, lower than an expected reading of 52.5.
- ISM Services Prices Index was reported at 57.4 versus market expectations of 57.3.
- ISM Services Employment Index fell to 43.3, lower than estimates of 51.0.
- ISM Services New Orders Index dropped to 52.8 versus market expectations of 56.1.

## Positioning

- We kept duration below neutral at approximately 5.5 years. This is more of a function of the large calendar of investment grade issuance scheduled in January which leads to higher yields as a concession to clear the supply rather than a view on economic data.
- While we are expecting some back-up in yields in the first few weeks of the year, we continue to expect a much more significant decline in yields once the U.S. Federal Reserve starts to cut rates. The consensus is that this is a second half of 2024 event and we are leaning towards this occurring earlier.

## Market Outlook

Data continues to be generally weaker than expected, oftentimes conflicting between data series. We generally place less emphasis on December data points as temporary holiday employment trends and seasonal adjustments often lead to outlier numbers. The ISM Services releases were surprisingly weak as this represents the bulk of economic activity.

### HARB Key Metrics

|                                    |           |
|------------------------------------|-----------|
| Weighted Average Duration          | 5.56 yrs. |
| Average Credit Quality             | AA        |
| Weighted Average Coupon            | 5.02%     |
| Weighted Average Yield to Maturity | 5.07%     |

Source: Horizons ETFs Management (Canada) Inc. as at December 29, 2023.



## Who is Barry Allan?

Barry Allan is the founder and CEO of DMAT Capital, a firm that specializes in fixed-income based investing and a sub-advisor to Horizons ETFs. Prior to founding DMAT, Barry Allan was the founder and CEO of Marret Asset Management and was responsible for Marret's overall strategic asset allocation. Marret was purchased by CI Financial in 2013.

Barry has over 40 years of experience in all areas of fixed income and extensive experience in derivatives, including many years with Nesbitt Thomson and the Bank of Montreal. Barry worked for six years at Altamira, where he led Altamira High Yield Fund and had secondary responsibilities on equity and balanced fund mandates. Barry has an MBA from the University of Arizona. Barry is a regular commentator in the media and speaks at conferences on economic and credit issues.

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