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COMMENTARY

HARVEST US INVESTMENT GRADE BOND PLUS ETF

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Congress' inability to pull together a bipartisan pre-election fiscal support package and growing COVID-19 infections across the U.S. and Europe weighed heavily on investor sentiment and risky asset prices during the final week of October. Despite better- than-expected quarterly corporate earnings reports, global equity markets were amongst the hardest hit. At the time of this writing (November 4th), many of the important contests in the U.S. election are still too close to call and final results may be days and/or weeks away. It appears that the Democratic Party candidate, Joe Biden, will win the Presidency and that the Democratic and Republican Parties will retain pre-election majorities in the U.S. House and Senate, respectively. If confirmed, this governing combination will likely result in fewer (and less extreme) policy shifts than contemplated under a possible pre-election scenario of the Democratic Party controlling the White House and both houses of Congress. Take for example the expected size, shape and form of additional COVID-related fiscal legislation. While we still expect some form of fiscal stimulus over coming months, it is now likely be smaller ($1 trillion versus $2+ trillion) and more targeted when compared to recent Democrat proposals. This reality should alleviate any near-term upward pressure on longer-tenor Treasury yields. As election-related uncertainty fades, broad risk sentiment should recover and the U.S. economy should continue to expand. While rising COVID cases in the U.S. may slow the rate of economic recovery, we do not anticipate the need for widespread hard lockdowns that would cause a temporary GDP decline.

To recap October's broad market activity: U.S. Treasury yields bear steepened (5yr +11 basis points, 30yr +20 basis points), U.S. equities were mixed (S&P 500 -2.7%, RTY +2.1%), USD corporate credit spreads narrowed (IG -11 basis points, HY -8 basis points), Oil declined (-11%), implied equity volatility surged (VIX at 38), and the U.S. Dollar was little changed (DXY +0.2%).

The Bloomberg Barclays U.S. Corporate Index posted a -0.18% return during October as the price impact from higher U.S. Treasury yields more than offset the return contributions from narrower credit spreads and coupon income. Relative to duration- matched U.S. Treasury returns, the Index outperformed by +0.99%. In the largest monthly spread rally since July, USD investment grade market spreads closed October eleven basis points tighter (136 basis points to 125 basis points) and reside at the 47th percentile when compared to monthly spreads since the mid-1990s. The Index's yield-to-worst closed October at 2.03% and continued to trade in a relatively narrow range. At the sector, credit quality and maturity levels: Non-Financials outperformed Financials and lower credit quality (A-BBB) issuers handily outperformed higher credit quality (AAA-AA) issuers. Issuer credit curves flattened as longer-tenor (10-30yr) spreads narrowed more than short and intermediate tenor (3yr-7yr) spreads. Near- term U.S. election uncertainties aside, we expect credit curve flattening will remain a theme into the next year as global and domestic investors continue to search

for longer-duration high grade yield. The best performing sectors included Basic Industries, Food & Beverage and Insurance. Underperforming sectors included Consumer Products, Energy (lower oil prices) and Technology. October USD Investment Grade gross new issuance came in ahead of forecasts at approximately $85 billion. While year-to-date gross issuance, at over $1.7 trillion, is running a whopping 60% ahead of last year, the issuance "spigot" is starting to run dry. And it is no surprise that companies are accessing the debt capital markets at a slower pace given many potential issuers' bulging cash hoards, minimal refinancing needs and limited additional debt capacity. To that point, current forecasts call for only $50 billion in total gross issuance for the last two months of the year. This dynamic will prove to be a supportive market tailwind to close out 2020.

The Fund outperformed the market benchmark during October. Sector allocation and security selection themes both contributed to relative outperformance. At the sector level, allocation themes within the Automotive, Healthcare and Insurance sectors were notable contributors while Energy, Financial Services and Services sector allocations were notable detractors. Issuer selection themes within the Basic Industry, Capital Goods and Energy sectors were positive contributors to relative performance while Insurance, REIT and Telecommunications selection themes detracted from relative performance. Credit curve positioning continues to favor an overweight bias on longer-tenor maturities relative to the benchmark with an overall down in credit quality bias. Fund duration was modestly longer than the market benchmark.

The medium-term macro outlook remains positive when considering continued development of COVID-19 treatments, a high likelihood of a successful vaccine, the potential for U.S. governmental "gridlock" and accommodative financial conditions that are unlikely to be reversed by tighter monetary policy. USD Investment Grade Corporate bond spreads offer reasonable long-term value across a number of market sectors, but selectivity is important given the extent of the post-pandemic spread recovery to date.

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