HarvestETFs

Product Commentary

October 2024

Markets rise and the Fed makes the cut

It may not feel like it, but we have experienced the best first three quarters since 1996 on the S&P 500. Moreover, we continue to see broader market participation. When more stocks and sectors are participating in the upside – that's a healthy sign for the market.

Valuations are higher for the broader market, though this is skewed by the Magnificent 7 (Apple, Microsoft, Alphabet, Amazon, Meta, Tesla, NVIDIA). Looking closer, we can see that the equal weight market index is trading at a meaningful discount compared to the cap weighted market.

Early in the second half of September, the US Federal Reserve (the Fed) made an aggressive 50-basis points cut in its benchmark rate. This came as a result of slowing economic data, lower trends in inflation and, in particular, weaker-than-expected employment data.

Prior to the Fed's rate cut, bond yields had been falling more quickly at the longer end of the yield curve. Notably, yields came down significantly across most maturities as rate cuts have been largely priced in.

How will the US economy fare on these rate cuts? For the time being, a soft landing and bullish sentiment remain in control of the narrative. In such a climate, our team expects options premiums to be high for both equity and fixed income ETFs using covered calls.

September saw continued rotations in equities, and both sectors and ETFs with defensive characteristics remain in focus.

Canada finds itself at a crossroads from an economic standpoint. Its economic indicators are cause for concerns, and the Bank of Canada looks poised to cut interest rates. Regardless, Canada is still home to many great companies. Many of these companies face very little competition and can easily change prices for the goods and services they offer. The technical term for companies with these qualities are oligopolies. They generate strong cash flows even in tough economic periods.

HHL HHL.B HHL.U

Harvest Healthcare Leaders Income ETF

The healthcare sector pulled back modestly during the month of September. Despite pulling back, the sector performed better than the broader markets mainly due to some stocks' specific drivers.

HHL also outperformed the global benchmarks. This was due to significant declines in Novo Nordisk and select Japanese healthcare stocks not in the Fund's universe that affect the global benchmarks. In addition, there were declines in some US companies that the Fund does not own. For example, news related to Moderna and Mckesson announcing the sale of its Rexall drugstore chain, as well as Well.ca to a private equity company, was not well received. Not holding the names aided the relative performance of the Fund.

Within the portfolio holdings, Regeneron (REGN) detracted from the Fund's performance. The company has been a stellar performer over the past 3 years with exceptional R&D results. However, a patent dispute with Amgen (also owned) that went in favour of Amgen, resulted in the REGN being impacted to the downside. We had gotten called away on REGN in August and had a relatively low weight in the positions but it still had an impact.

On the positive side, Zoetis continued to trend upward, driven by improving outlook for their companion animal business, due in large part to the macro narrative. Similarly, the Life Sciences / Tools & Diagnostics companies benefited from China stimulus given some exposure within that market.

The Fund will be reconstituted and rebalanced in October.

HBF HBF.B HBF.U

Harvest Brand Leaders Plus Income ETF

After a rocky start to the typically weak month of September, stocks rallied through the final 3 weeks to a positive close for the month. There were more stocks participating in the market's overall growth with expectations of interest rate cuts by the U.S. Federal Reserve (the "Fed") continuing to push the performance of equities and bonds. The Fed lowering of interest rate in mid-September combined with China's measures to stimulate its economy drove many Consumers Discretionary stocks higher late in the month. Some interest rate sensitive sectors, such as Utilities and Real Estate continued to perform well.

The Fund's performance was positive for the month. The main contributors to performance were Broadcom, Cisco and Caterpillar while the main detractors from performance were JPMorgan Chase & Co and Shell.

The Fund will be rebalanced during the month of October.

HTA HTA.B HTA.U

Harvest Tech Achievers Growth & Income ETF

After a rocky start to the typically weak month of September, technology stocks reversed course and rallied into the green through the end of the month. In a relative vacuum of corporate news, a 50-basis point interest rate cut by the U.S. Federal Reserve (the "Fed") and stimulus measures by China drove the broader markets to new highs. Although returns were solid for the Technology sector, it has thus far failed to follow the market to new highs on the recent rally with several interest rate-sensitive and cyclical sectors outpacing the group.

The Fund's performance was positive, as was the sector's. The main contributor to the Fund's performance were Oracle, Advanced Micro Devices and Micron Technology while the main detractor from performance was Adobe – it recorded the worst performance in the Fund. Adobe's poor performance was driven by the release of its earnings forecast that underwhelmed analysts on the street.

The artificial intelligence (AI) theme remained a big theme for the sector. Some investors have continued to question whether companies will be able to monetize AI features to a degree that will justify the significant investments made by those companies to develop and support them. This has led to significant volatility in AI-exposed names in recent months, particularly in the software industry, and we expect this volatility to continue going forward.

The Fund will be rebalanced during the month of October.

HUTL

Harvest Equal Weight Global Utilities Income ETF

The Utilities sector continued to perform steadily during the month, with strong return for September. Utilities stocks continued to trend towards higher prices – a trend that commenced at the onset of the peak in interest rates dating back to the fall of 2023. During the month the US Federal Reserve Bank finally cut the overnight rate delivering a supersized cut of 50 percentage points (0.5%).

The broader markets witnessed a bit more volatility in September. That helped propel Utilities and HUTL to deliver better performance relative to the broader markets, particularly at the start of the month. There is still enthusiasm relating to AI for the Utilities sector. Notably, investors are starting to realize how big the demand is for electricity to support the computing power behind AI. That could represent a marked increase in both energy demand and prices which are a positive tailwind for many Utilities subsectors over the medium-term.

We believe that utilities are a strong stabilizing force during periods of economic slowdown, like the one the US could encounter due to the lingering tight monetary conditions. And it is also an attractive area when you combine the income component of Utilities, along with the covered call overlay at work in HUTL.

We will be conducting a sector deep dive later in October discussing the sectors outlook based on the interest rate and economic scenarios.

The portfolio consists of the 30 largest utility, telecom and pipeline issuers that rank between the 50th & 90th percentile of dividend payers listed on a North American or European stock exchange and has a covered call option strategy to generate additional yield.

HGR

Harvest Global REIT Leaders Income ETF

HGR and global REITs continued to climb as yields fell, pricing in a start to the new rate cutting cycle (albeit perhaps a little to aggressively at this point). The narrative that REIT prices are lower than what they should be, the defensive characteristic of REITs, and more importantly, as an interest-rate sensitive sub-sector, all helped to contribute to the gains witnessed. Specialty REITs with secular drivers, like data center REITs continue to lead the way. In particular, the need for greater computational power to drive AI innovation has resulted in huge demand for data centers. This segment of the REIT market, which does not have much of an equivalent in Canada, has been a strong performer for the ETF. This has carried over into our Diversified REIT holdings outside of North America – Merlin Properties in Europe and CapitaLand Ascendas in Singapore each have expanding data center portfolios, and that has been a benefit. Beyond data centers, Triple-Net Lease Retail REITs saw strong performance with yields falling, with greater sensitivity to interest rates, and self-storage REITs continued to lead the way.

Looking forward, the start to and continuation of the US Federal Reserve Bank's rate cutting cycle should be a tailwind for REITs, but it would also be nice to see the economy cooperate as well. The economy can slow but needs to remain steady without falling into a much deeper recession for REITs to also benefit on an absolute return basis.

The ETF continues to be invested in a globally diversified (naturally weighted to the US) group of REITs with broad sub-sector diversification, which gives a broad mix of tenant and lease profiles. This is especially important in an environment where the macro picture is still very uncertain.

HPF **HPF.U**

Harvest Energy Leaders Plus Income ETF

Crude oil markets looked ready to break to new cycle lows in September, as concerns about the US economic picture dovetailed with slowing economies globally. Energy markets were down handily, and that translated to quite weak performance in HPF for the month of September. However, just as the month was coming to an end the picture started to change and crude oil saw early gains to start the month of October.

Very broadly speaking, we could point to the first boost coming from the demand side as China enacted new stimulative measures, which were quite robust and triggered renewed hopes to stimulate their economy. The second boost for oil markets was a strong US employment report, also suggesting those bearish on crude oil demand might have to dial back those expectations. And finally, a huge trigger for supply of crude oil was the rising Middle East tensions yet again, now with Israel, Hezbollah and

Iran ramping up their conflicts. So, while September was a weak month for crude oil, the picture has changed very quickly to start the new month.

The weaker commodity prices in September have fed through directly to the higher Beta Energy sub-sectors, especially those with Exploration & Production exposure. Meanwhile, our holdings on the Pipelines side gained good ground to offset some of the selling pressure elsewhere. The Pipelines have capitalized on the increased expectations of declining interest rates led by rate cuts from Central Banks (US started in September), as most interest rate sensitive sub-sectors have gained good ground in September.

HUBL **HUBL.U**

Harvest US Bank Leaders Income ETF

United States bank stocks fell during September, with shares of JPMorgan Chase & Co leading on the downside following cautious comments by the company's management about expenses and income for next year. These cautious comments as well as similar comments from other industry participants kept a lid on the banks' performance during the month. However, the group did rally off the lows seen mid-month. Banks have enjoyed strong performance for most of 2024, in large part driven by expectations that interest rate cuts by the U.S. Federal Reserves would stimulate loan growth and drive profit margins higher. Over the last 2 months, bank stocks have generally traded sideways as investors contemplate the path of interest rates and the strength of the U.S. economy.

The Fund's performance was positive with the main contributors to performance being M&T Bank and Fifth Third Bancorp while the main detractors from performance were JPMorgan Chase & Co and First Citizens Bancshares.

HLIF

Harvest Canadian Equity Income Leaders ETF

Equity markets, including Canadian stocks, gained ground on the month, with the more interest rate sensitive areas of the market being the leaders. Naturally, HLIF has some decent exposure to many of these areas, such as Financials, Utilities, Pipelines, and Real Estate. The Bank of Canada is now fully entrenched in a cutting cycle. We believe that the downswing of a rate reduction cycle has a positive tailwind on those more interest rate sensitive areas within the portfolio.

The portfolio consists of the 30 largest diversified issuers in Canada that rank between the 50th & 95th percentile of dividend payers and has a covered call option strategy to generate additional yield.

The ETF was rebalanced and reconstituted in September, with two name changes occurring. iA Financial Corp dropped out in the bottom 50th percentile of yield, while Veren Inc dropped out as the market cap dropped below the top 35 names. Replacing these two names were Rogers Communications and Magna Corp.

TRVI Harvest Travel & Leisure Income ETF &
TRVL TRVL.U Harvest Travel & Leisure Index ETF

For the month of September, the travel sector outperformed the broader equity market as well as the broader Consumer Discretionary sector. After two months of volatility on the downside, the sector showed in September that it can be volatile to the upside as well. All sub-sectors add to performance as a 50-bps rate cut by the US Fed, and stimulative policies out of China posed tailwinds for companies within the travel and leisure sector. Airlines also benefitted from positive developments within the industry around a favourable supply-demand dynamics for Q4 2024, as well as favourable fuel pricing environment. Casinos and Casino REITs with a higher exposure to China enjoyed a higher lift in their stock prices vs. their peers.

The main contributor to the Funds' performance were Delta Airlines, Booking Holdings and Las Vegas Sands round while the main detractors from performance, albeit marginal were Red Rock Resorts, Vail Resorts and Wyndham Hotels and resorts.
Rising unemployment continues to be a potential risk for the travel and leisure sector with demand side potentially taking a hit if we see weak employment data emerging out of the U.S. as households could cut discretionary spending in travel. The non-farm payrolls data released in September was much higher vs consensus estimates, which is good for the sector. Even though a single data release doesn't make a trend, forthcoming data could solidify the soft-landing narrative especially in the face of the US Fed rate cuts. This means the sector could benefit from a pick-up in the employment or strong wage data. We believe travel spending should remain relatively resilient relative to the broader consumer discretionary sector due to secular growth trends and demographic forces.

TRVL provides a one stop solution for diversified exposure towards the travel related sub-sectors and reduces individual stock specific risks. The ETF holds the top 30 travel related stocks, is capitalization weighted subject to a 10% maximum in any one position.

The Harvest Travel & Leisure Income ETF (TRVI) tracks the same companies held in TRVL overlayed with a covered call strategy and employs a currency hedge on its US dollar exposure. We have seen write levels go down (and is well below the max 33% write level) in the last couple of months as implied volatility levels increased across the holdings within the portfolio.

HDIF Harvest Diversified Monthly Income ETF &
HRIF Harvest Diversified Equity Income ETF

The ETFs generated positive returns in the month of September following some initial volatility, with several of the underlying ETFs held in the portfolio recording strong performances. Specifically, the position in TRVI (Harvest Travel & Leisure Income ETF) posted strong returns on the 50-bps rate cut by the US Fed, and stimulative policies out of China posed tailwinds for consumer discretionary companies while some travel and leisure dynamics also started to point towards favourable Q4 trends. Similarly, HIND the Harvest Industrial Leaders Income ETF posted strong returns following a relative lag over recent months and benefitted from similar drivers. The position in the US Banks was laggard following strong recent performance. We tactically trimmed the overweight in financials, trimming HUBL (US Banks) in August following the increased exposure due to the relatively strong performance over recent months. During the month of September, we tactically trimmed the position in TRVI and we opted to add to the modest but growing position in HGR (Global REITs) that we initiated in early July.

Both ETFs are well-positioned going forward with diversified equity. Meanwhile, HDIF continues to maintain its leverage of approximately 25%. This structure allows for both higher monthly cash flows and greater exposure to a potential recovery than the same strategy with zero leverage.

HIND

Harvest Industrial Leaders Income ETF

After a rocky start to the typically weak month of September, industrial stocks rallied strongly in the final three weeks of the month to a positive close, outpacing the returns of the broader market. A 50-basis point interest rate cut by the U.S. Federal Reserve and a flurry of stimulus measures enacted by China drove a strong rally in several sub-industries, particularly passenger airlines and companies exposed to manufacturing.

The ETF benefitted from strength in machinery names such as Caterpillar Inc. and Ingersoll-Rand Inc while Delta Air Lines Inc. also continued a strong rally that began in the prior month. The outcome for defense stocks was mixed despite geopolitical tensions following several months of positive returns. RTX Corp fell slightly during the month while shares of General Dynamics Corp rose modestly.

The ETF was rebalanced during September and there were no changes made to the ETFs constituent holdings.

HPYT **HPYT.B** **HPYT.U** **HPYM** **HPYM.U**

Harvest Premium Yield Treasury ETF & Harvest Premium Yield 7-10 Year Treasury ETF

The US Federal Reserve Bank (the "Fed") cut overnight interest rates for the first time since its rate hiking cycle began all the way back in 2022. It was a highly anticipated move with the cut expected for months, but rather the size of the cut was somewhat debated at 25 bps vs 50 bps. Ultimately, the 50-bps cut won out, as members felt confident enough that employment was slowing enough while inflation was also subsiding enough. Given the market had plenty of time to expect a rate cut. We saw longer end bond yields coming down since April of this year. However, after the rate cut, new commentary around the path forward contributed to the longer end bond yields gravitating slightly higher, as market participants adjusted their thinking of timing and the ultimate level of rates.

Even beyond month end, we've seen further movement higher in yields after a strong US employment report, and as such the volatility witnessed in the bond market has continued, with a wider range of data sparking sudden moves in bond yields. For example, not only the widely followed CPI prints and unemployment updates, but even the secondary and less widely followed economic indicators are now heavily scrutinized, leaving bond markets to jump up and down with each release. We continue to expect volatility to each data point as we go through the transition from hiking to easing and markets digest the soft versus hard landing scenarios.

Further, market participant expectations for the Fed timeline have also been volatile, with the expected cutting cycle to now bottom closer to a 3.5% overnight rate sometime in 2026, which is higher for longer than prior. This has been driven by one off data points such as the stronger than expected non-farm payroll in early October that has caused the longer end of yields (5-20 year bonds) to move higher and prices lower.

Given the nature of the longer durations sensitivity to bond yield moves, we have seen more volatility in HPYT (20+ year US Treasuries) versus HPYM (7-10 year US Treasuries). We expect that to be the case for both the upside and downside, with HPYT offering higher premiums while HPYM less volatility but still meaningful additional yield over the underlying.

We continue to write options to generate income on the back of that bond market volatility. We have also opted to cover the options written for the month of October early in the month after the pullback in the underlying bond ETFs resulted in the near full premium capture in the options written at higher prices, despite time remaining in the period, affording the opportunity for more participation in the short term should bond prices rise before the expiry.

HBIG Harvest Balanced Income & Growth ETF &
HBIE Harvest Balanced Income & Growth Enhanced ETF

The ETFs benefited from the positive performance of most of its underlying ETF holdings with HBIE capturing more of those benefits due to the use of modest leverage. The ETFs exposure to the industrial sector benefited them most. A relatively small position in Energy Leaders Plus Income ETF lagged due to volatility in commodity prices. Both the longer dated and mid-duration ETFs with covered calls (HPYT & HPYM) were positively impacted by moves in rates over the course of September. Bond yields have remained volatile through early October and having the shorter duration non-covered call positions helped smooth the recent volatility vin the ETFs. There were no significant changes to the portfolio allocations during the month.

These ETFs are well positioned going forward with diversified equity exposure and allocations in fixed income investments that cover the entire maturity spectrum. Meanwhile, HBIE continues to maintain its leverage of approximately 25%. This structure allows for both higher monthly cash flows and greater exposure to a potential recovery than the same strategy with zero leverage.

HGGG

Harvest Global Gold Giants Index ETF

The price of gold broke higher and further toward all-time highs. The start of the rate cutting cycle in the US in September boosted the appeal of a zero-yielding asset like gold, just as the renewed safe-haven appeal sparked interest in the yellow metal.

The Middle East tensions directly help the demand for gold. Exploding pagers linked to targeting Hezbollah members were the first to make global airwaves in mid-September, with the back-and-forth conflict spiralling further into the latest massive Iranian missile barrage being sent into Israel. These volatile periods are never predictable but lends itself to the investing mantra of holding gold as a safe haven exactly for these unexpected times.

Our position is that gold producers are more shareholder friendly than they have been historically and provide a leverage to gold price upside through their margins. From a longer-term holding perspective, a basket of gold producers can be good as a portfolio diversifier, as it tends to act counter to the broad equity markets during many periods of the volatile part of a market cycle.

The portfolio consists of the largest 20 gold companies listed on North American, select European and Australian markets and is equally weighted and rebalanced and reconstituted quarterly.

HBLK

Blockchain Technologies ETF

The broader equity markets and cryptocurrencies such as Bitcoin were volatile during the month of September – recording declines at start the month but ended the month positive. HBLK performance was in line with the broader equity markets. The Large cap as well as the Dedicated (Emerging Market) Blockchain segment contributed to performance; with Large Cap outperforming the Dedicated Blockchain segment. Performance across sub-sectors within the blockchain segment was mixed with miners being top contributors to performance backed by performance of Bitcoin, and Ethereum during the month. Crypto trading and wallet companies detracted from performance.

The portfolio remains in stage 2 with large-cap allocation at 35% while the typically smaller- cap dedicated segment is weighted at 65%. We believe a higher allocation to large-cap could be beneficial for the portfolio as we see the full cycle play out in the crypto-space.

We remain focussed on blockchain technology and not cryptocurrencies; because we believe that companies adding value through blockchain implementation or utilization across industries can create wealth for investors. Blockchain technology is now in the late exploration – early growth stage and has immense potential for growth over the long-term.

The portfolio continues to display diversity in terms of companies engaged in different avenues of blockchain development, especially software and tech services consultants provide much needed diversification when crypto economy related stocks face downside volatility.

HCLN

Harvest Clean Energy ETF

It's been a volatile range-bound market for clean energy stocks going back to the Fall of 2023. Despite the falling interest rate narrative, these growth-focused Utilities stocks do not react in a similar manner to their regulated peers, which are quite interest rate sensitive in a positive way.

Clean energy stocks had attempted to gain some groundswell this year on the growth of artificial intelligence and the amount of data and computational power needs being front and center. Data center growth is expected to be stronger than prior thought, and as a corollary, the demand for power is expected to grow even faster than previously expected. Renewable power sources, particularly solar power generation, grabbed the headlines as helping to fulfill a big need here. Additionally, the White House had increased the tariffs on goods from China, including solar cells, and that was positive for US centric companies, for a short period of time.

As the US political landscape has started to be of notable concern for renewables that has also shifted again, leaving uncertainty to weigh on the space. Growing talk of a potential Trump presidency and Republican congress, parlayed into growing worries about what that might mean for US clean energy policy, particularly the investment dollars and incentives that have been enacted under President Biden. Now, with Kamala Harris as the Democratic nominee the outcome is not so certain, and the picture on where US renewable policy goes is also not so clear. The upcoming debates and rallies continue to add the noise as we head into November.

The ETF invests in a portfolio of the 40 largest clean energy issuers and clean energy equipment & services companies by market cap. Its universe includes equity securities listed on North American, European, and Asian stock exchanges. The portfolio is equally weighted, following a systemic process to select the 40 largest dedicated clean energy companies.

About Harvest

Founded in 2009, Harvest Portfolios Group Inc. is an independent Canadian Investment Fund Manager. At Harvest, our guiding principles are premised on building wealth for our clients through ownership of strong businesses that have the potential to grow & generate income over the long term. Harvest has an established track record with its stable of equity ETFs. Now, in 2024, Harvest has expanded its income philosophy to introduce a full suite of Fixed Income ETFs to our innovative lineup. Harvest now offers exposure to offers three separate fixed income ETFs that cover the entire maturity spectrum from exposure to treasury bonds and bills issued and backed by the full faith and credit of the US and Canada governments, respectively. Our intermediate and long duration ETFs invest in US treasury ETFs and write covered calls on up to 100% of their holdings to generate high income. On the short end, our money market ETF is a low-risk vehicle that invests directly in Canadian treasury bills and pays the accrued interest monthly.

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