MONTHLY BOND LETTER

AlphaFixe Capital

AUGUST 2024

ECONOMIC EVENTS

- Canadian GDP posted annualized quarterly growth of 2.1% in the spring, 0.3% ahead of economists' forecasts. Household consumption expenditure rose by 0.6%, compared with 3.6% in the previous quarter. Households are therefore being cautious with their budgets, cutting back on spending despite the growth in employment income during the quarter (+6.6% annualized). Public administrations took over from households in the second quarter, with 6% growth in government spending linked to wage increases for public service employees. Businesses also contributed, with higher investment in machinery and equipment, particularly in the aerospace sector. However, residential construction investment and international trade acted as a brake on growth.

Growth is stronger than expected and above the economy's potential, but the sources are more fragile. Business investment comes partly from the highly volatile aviation sector, and government wage increases will not be repeated in the next quarter. Households are cautious with their spending and want to protect themselves against mortgage refinancing in 2025-2026. This statistic should not change the Bank of Canada's intention to continue its monetary easing this year.

- US personal spending rose by 0.5% month-on-month in July, bringing annual growth to 5.3%. In volume terms, spending rose by 0.4%, contributing to GDP expansion in the third quarter. This increase in volume reflects a 0.7% rise in spending on goods, notably vehicles following the cyber-attack that forced some car dealers to record their sales manually in June. Services also rose by 0.2% in July. Consumption was partly financed by a 0.3% rise in income. Households therefore dipped back into their savings cushions to complete their purchases. The savings rate as a proportion of disposable income now stands at 2.9%.

Last January, the savings rate stood at 4.0%. Households' money cushion is thus becoming thinner and thinner. This drop in the savings rate is also accompanied by the exhaustion of the excess savings accumulated by households during the pandemic. Given the rate of growth of the Atlanta Federal Reserve wage index over the past year (4.7%), households could reduce their consumption in the coming quarters. On the other hand, such a low savings rate also indicates a degree of confidence in the job market.

- The German economy has been on a tear recently. Its GDP contracted by 0.1% between the first and second quarters, as declining private consumption (-0.2%) and investment in construction (-2%) and machinery (-4.1%) weighed on activity. Business leaders and consumers are also less confident. The IFO business conditions index is approaching the lows of recent years (with the exception of the pandemic, of course), and the President of the IFO Institute has indicated that the German economy is increasingly in crisis.

German economic growth in recent decades was based on vigorous international trade, while goods producers and exporters benefited from access to cheap energy. The war in Ukraine and global geopolitical tensions have complicated matters. Germany is therefore going through a period of structural adjustment.

RATE TRENDS

- In line with expectations, the Bank of Canada cut its policy rate by 0.25% to 4.25% on September 4. This was the third rate cut in as many meetings. This decision is based on lower inflationary pressures as measured by the CPI, while the economy continues to show excess supply. However, the Bank recognizes that there are opposing forces at work on inflation. The proportion of the consumer basket whose prices have risen by more than 3% in the past year has returned close to its historical norm, but housing and service prices remain robust. Weakness in employment and GDP in June and July also contributed to the decision. "As inflation moves closer to the target, we need to protect ourselves more and more against the risk of the economy and inflation slowing down too much", said the Governor.

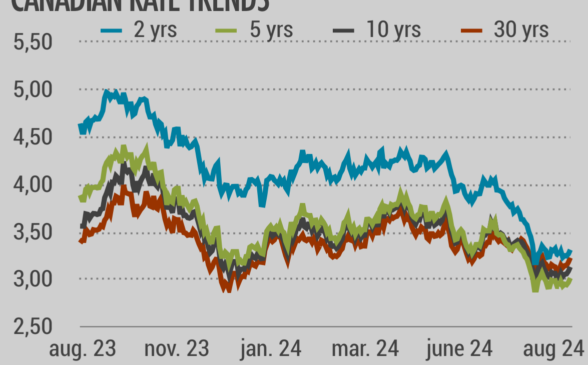
Price pressures are no longer as widespread, and the economy is showing signs of weakness. As a result, there is no longer any reason for monetary policy to be so restrictive, and further cuts are expected. The Bank could accelerate rate cuts if economic conditions deteriorate further, especially in terms of employment. On the other hand, house prices could rise again as rates fall and the housing shortage persists. The Bank is aware of the imbalance in the real estate market, and prefers to take a cautious approach to avoid a resumption of overbidding. It is therefore trying to strike a balance between boosting the economy and avoiding housing inflation.

BOND RATES

Aug. 31, 2024		Monthly Change	Change 2024		Monthly Change	Change 2024
Key Interest Rate	4,50 %	0,00 %	-0,50 %	5,50 %	0,00 %	0,00 %
3 months	4,18 %	-0,24 %	-0,88 %	5,11 %	-0,17 %	-0,22 %
2 years	3,33 %	-0,12 %	-0,56 %	3,92 %	-0,34 %	-0,33 %
5 years	3,04 %	-0,05 %	-0,14 %	3,70 %	-0,21 %	-0,14 %
10 years	3,16 %	-0,00 %	0,05 %	3,90 %	-0,13 %	0,02 %
30 years	3,27 %	0,06 %	0,23 %	4,20 %	-0,10 %	0,17 %
RRB 30 years	1,46 %	0,13 %	0,16 %			

Source: Bloomberg

CANADIAN RATE TRENDS



1800 Ave. McGill College | Suite 2420 | Montréal (PQ) | H3A 3J6
514-861-3493
www.alphafixe.com
info@alphafixe.com

CREDIT BOND RISK PREMIUMS

Issuers	Credit Rating DBRS	Spread 5 yrs	Spread 10 yrs	Spread 30 yrs	Change 5 yrs month	Change 5 yrs 2024	Change 10 yrs month	Change 10 yrs 2024	Change 30 yrs month	Change 30 yrs 2024
Royal Bank, Bail-in-debt	AA	105	140	170	-5	-25	-5	-25	-5	-25
Royal Bank, NVCC	A	155	200	240	0	-30	0	-30	0	-30
Sun Life, subordinated debt	A	130	170	205	0	-35	0	-35	0	-30
Hydro One	A high	80	115	145	0	-5	0	0	0	5
Enbridge Inc	A low	120	165	215	-10	-10	-5	-10	-5	-5
Altalink LP	A	80	115	145	0	-5	0	0	5	5
GTAA	A high	75	105	135	0	-5	0	-5	0	5
Bell Canada	BBB high	125	165	210	-5	0	-5	0	-5	10
Rogers Communications	BBBL	135	175	220	0	-10	-5	-10	-5	-10
Loblaw	BBB high	105	145	180	-5	0	-5	5	-5	5
Canadian Tire	BBB	135	175	220	0	15	-5	15	-5	15
Province Québec	AA low	35	72	97	-5	-3	-1	6	-2	9
Province Ontario	AA low	35	71	94	-5	-5	-1	3	-3	4
CMHC	AAA	22	43	---	-4	-6	2	-1		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bonds new issuance totalled $8.7 billion in August, up $1.4 billion on the previous month and $4.5 billion more than in August 2023. Year-to-date, bond financing totals $85.6 billion, up 44% on the same period last year. It was the busiest August on record. The utility industry was particularly busy, with issues totalling $5.15 billion across 4 issuers and 10 different bonds. Enbridge Inc. was one of these issuers, with financing totalling $1.8 billion.

- Alimentation Couche-Tard has made a friendly offer to acquire the US convenience store chain 7-Eleven, now owned by Japanese company Seven & i Holdings. The offer applies to the entire Seven & i Holdings portfolio, which operates 86,000 convenience stores worldwide and employs around 77,000 workers. However, three-quarters of Seven & i's sales are generated in North America through 7-Eleven. Alimentation Couche-Tard is seeking a transaction that will benefit both companies, shareholders and employees. Although no financial details have been disclosed, an acquisition value of around 48 billion USD is estimated. For creditors and bondholders, it is the composition of the financing that will be of concern, and its impact on the merged company's debt-to-equity ratio. If the deal goes through, it would be the largest ever takeover of a Japanese company by a foreign company.

- TD Bank announced that it had to take a $3.57 billion provision in connection with an anti-money laundering investigation by regulatory authorities. As a result of this charge, TD Bank reported a loss of $181 million in its third quarter, compared with earnings of $2.88 billion at the same time last year. The final bill imposed by the authorities has not yet been revealed, but it is also possible that it will be accompanied by non-monetary sanctions. To help absorb the fine, TD Bank has decided to dispose of 40.5 million shares in the Charles Schwab company, valued at US$2.6 billion, or the equivalent of C$3.57 billion. With this sale, the bank's stake in the US brokerage firm fell from 12.3% to 10.1%.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Aug. 2024	2024
Universe	100 %	0,33 %	2,32 %
Short Term	40,9 %	0,51 %	3,66 %
Mid Term	30,6 %	0,51 %	3,06 %
Long Term	28,5 %	-0,13 %	-0,53 %
Federal	40,4 %	0,40 %	2,27 %
Provincial	33,2 %	0,29 %	1,37 %
Corporates	24,6 %	0,26 %	3,68 %
RRB		-1,19 %	1,44 %

Source: ftse.com

The deal is far from closed, and could be hampered by antitrust regulators in Japan, the USA, Canada and Europe, as well as national security concerns on the part of governments. Couche-Tard's experience with the failed acquisition of Carrefour in 2021 is a reminder of the potential challenges associated with cross-border acquisitions.

TD's Tier-1 capital ratio fell by 0.6% to 12.8% at the end of the quarter, but remains above the minimum required by OSFI (11.5%). What is uncertain is the extent of the regulatory restrictions that will be imposed by the US authorities and their impact on earnings growth. Despite this provision, TD remains solid and should not cause too much concern to its creditors.

STRATEGIC POSITIONNING

A year ago, central bankers' attention was focused on rising consumer prices and persistent inflation. Twelve months on, restrictive monetary policies have helped inflation to make headway, bringing annual rates back within the permitted fluctuation bands. Today, central banks are placing greater emphasis on employment. In his annual speech at the Jackson Hole central bank symposium in August, the Chairman of the Federal Reserve clarified what many had been predicting: that the time has come to cut interest rates. However, the pace of cuts will continue to depend on economic data and the balance of risks. The risks associated with inflation have diminished, while those associated with full employment have increased, justifying a less restrictive monetary policy if the Fed is to avoid a recession. Powell therefore wants to adopt a pre-emptive approach to avoid acting more forcefully in response to a fall in employment. The direction is therefore clear, but the speed of getting there is still uncertain. Despite a more difficult economic climate, the Bank of Canada's message is similar. Inflation is better controlled and the risks of an economic slowdown are now to the fore. Employment statistics will now be closely watched by investors. Investors are expecting more than 1% cuts in the US key interest rate between now and the end of 2024. Without a marked slowdown or job losses, this trajectory seems too aggressive.