MONTHLY BOND LETTER

AlphaFixe Capital

NOVEMBER 2024

ECONOMIC EVENTS

- The Canadian economy recorded modest growth over the summer, up 1.0% quarter-on-quarter at an annualized rate. Household consumer spending recovered, posting a quarterly gain of 3.5% versus 0.9% in the spring. Vehicle purchases were a major contributor to this growth. Government spending (+4.8%) also boosted GDP. However, business investment (-11.3%) hampered growth. This fall was due to a reduction in aircraft spending in connection with the Boeing strike. However, the residential sector saw its first annualized growth in investment (+3.0%) in the last year. This gain was driven by housing resales. International trade was a drag on growth, with exports falling faster than imports.

Statistics Canada has also revised upwards the national accounts figures for recent years. To recap, GDP growth in 2021 is now 6.0% (was 5.3%), 2022 is 4.2% (3.8%), and 2023 is 1.5% (1.2%). All in all, the economy is slowing down over the summer, but some elements are buoyant, such as household consumption and real estate resale activity. The GDP revisions also mean that the output gap is smaller than the Bank had estimated. The Bank is likely to opt for a 0.25% cut in December to avoid a resumption of real estate bidding.

- President-elect Donald Trump surprised many by threatening to impose a 25% tariff on all imports from Canada and Mexico on his first day in office. He accused both countries of not doing enough to curb illegal immigration and drug trafficking. He is also targeting China, adding 10% to the tariffs currently in force. Canadian exports account for some 34% of Canadian GDP, and 75% of these go to the United States. Tariffs would therefore apply to the equivalent of 25% of our GDP. Canadian oil accounts for 32% of our goods exports and 60% of U.S. oil imports.

This announcement resembles a negotiating technique to settle other social issues. For the US economy, this trade war will have inflationary effects, especially if there are retaliatory tariffs. In Canada, however, the impact will be felt more on economic activity, given the importance of exports in GDP. The Canadian dollar should play its stabilizing role, while a depreciation of our currency would absorb part of the shock.

- The Chinese government has unveiled a US$1.4 trillion economic stimulus package that will be used to bail out local governments struggling with high levels of debt. Prior to this, the authorities had announced a plan to support the real estate market through local governments. Local governments will purchase unsold land and houses from property developers. The authorities need to stimulate domestic demand, especially since the election of Donald Trump, who is threatening China with strong tariffs.

Some investors were betting on a consumption stimulus plan with targeted budget spending for households. However, fiscal measures aimed at stimulating consumption could prove unsuccessful. The household savings rate is very high (32%) due to the lack of a social safety net, and could be even higher in times of uncertainty and real estate crisis, as is currently the case.

RATE TRENDS

- In line with investor expectations, the Federal Reserve cut its key rate by 0.25% to 4.75%. In its statement accompanying the decision, the Fed said that the economy was growing at a "solid pace" even though labor market conditions had "generally eased" compared with the start of the year. The monetary authority continued to describe inflation as "somewhat elevated", asserting nonetheless that inflation risks are roughly balanced. Against this backdrop of more moderate job creation and contained inflation, the Federal Reserve believes that a restrictive monetary policy is no longer as relevant. However, they were unwilling to make a decision on speculation about the economic measures to be taken by the Trump administration.

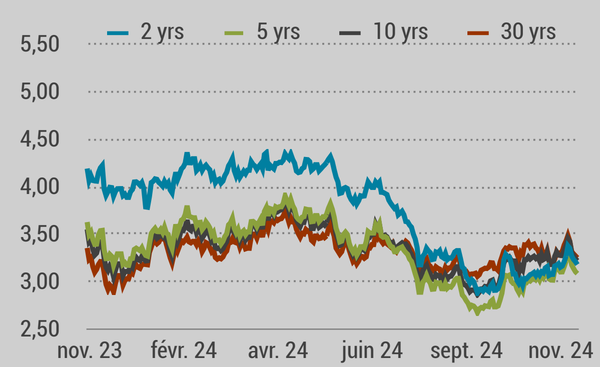
Certainly, Fed members could not incorporate the risks of Trump's economic measures into the conduct of monetary policy just two days after the election. However, it will be interesting to observe the new outlook for inflation, growth and the policy rate over the next few years, which will be published at the December meeting. Trump is banking on tax cuts, tariffs and the deportation of illegal immigrants. These are inflationary elements that will already add to an economy that is growing above potential.

BOND RATES

Nov. 30, 2024	Canada	Monthly Change	Change 2024	United States	Monthly Change	Change 2024
Key Interest Rate	3,75 %	0,00 %	-1,25 %	4,75 %	-0,25 %	-0,75 %
3 months	3,42 %	-0,13 %	-1,63 %	4,49 %	-0,06 %	-0,85 %
2 years	3,04 %	-0,04 %	-0,85 %	4,15 %	-0,02 %	-0,10 %
5 years	2,95 %	-0,07 %	-0,22 %	4,05 %	-0,11 %	0,20 %
10 years	3,09 %	-0,13 %	-0,02 %	4,17 %	-0,12 %	0,29 %
30 years	3,14 %	-0,15 %	0,10 %	4,36 %	-0,12 %	0,33 %
RRB 30 years	1,36 %	-0,13 %	0,05 %			

Source: Bloomberg

CANADIAN RATE TRENDS



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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	85	110	145	-5	-45	-5	-55	-5	-50
Royal Bank, NVCC	A	125	160	205	-10	-60	-10	-70	-10	-65
Sun Life, subordinated debt	A	100	140	180	-10	-65	-10	-65	-10	-55
Hydro One	A high	60	90	120	-5	-25	-10	-25	-10	-20
Enbridge Inc	A low	90	130	180	-10	-40	-10	-45	-15	-40
Altalink LP	A	60	90	120	-5	-25	-10	-25	-10	-20
GTAA	A high	55	85	115	-5	-25	-10	-25	-10	-15
Bell Canada	BBB high	105	145	195	-5	-20	0	-20	-5	-5
Rogers Communications	BBBL	110	150	195	-5	-35	0	-35	-10	-35
Loblaw	BBB high	80	120	165	-10	-25	-5	-20	-5	-10
Canadian Tire	BBB	110	150	200	-10	-10	-10	-10	-10	-5
Province Québec	AA low	25	65	87	-2	-13	-3	-1	-6	-1
Province Ontario	AA low	27	64	84	-2	-13	-3	-4	-6	-6
CMHC	AAA	18	39	---	0	-10	-2	-5		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bonds new issuance totalled $3.25 billion in November, down $11.1 billion on the previous month and $7.2 billion less than in November 2023. Year-to-date, bond financing totals $114.7 billion, up 31% on the same period last year. Among the 9 new debts in November were Gildan Activewears and Sleep Country Canada, both of which carried out their first public financing campaigns on the Canadian market. Gildan issued two bonds totalling $700 million, while Sleep Country borrowed $450 million.
- Canadian telecom company BCE is looking to expand its presence in the U.S. market. Earlier this month, BCE announced that it had reached an agreement to acquire internet fiber service provider Ziply Fiber for $7 billion, including $2 billion in debt to be assumed by Bell Canada. BCE said the deal will expand its fiber footprint in the U.S., adding around 1.3 million fiber sites in states such as Washington, Oregon, Idaho and Montana. BCE said it would use approximately $4.2 billion of the net proceeds from the sale of its 37.5% stake in Maple Leaf Sports & Entertainment to help pay for the acquisition. BCE also announced a freeze on dividend growth to ensure that its debt ratios return to levels more in line with an investment-grade credit rating.
- The province of Quebec has presented a financial update on public finances with few changes. The Minister of Finance is still forecasting an $11 billion deficit, which includes a $2.2 billion payment to the Generations Fund. The operating deficit is therefore $8.8 billion, equivalent to 1.4% of GDP. More generous than anticipated federal transfers boosted the province's revenues by $1.3 billion over budget. On the other hand, expenses were also $3 billion higher, reflecting higher debt servicing costs and new measures announced. The shortfall between revenues and expenses is being absorbed by the contingency fund. A return to balanced budgets is expected in 2028-29. Québec expects GDP growth of 1.2% in 2024 and 1.5% next year.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Nov 2024	2024
Universe	100 %	1,68 %	4,95 %
Short Term	40,6 %	0,57 %	5,30 %
Mid Term	29,3 %	1,32 %	4,94 %
Long Term	30,1 %	3,59 %	4,14 %
Federal	40,4 %	1,13 %	3,93 %
Provincial	33,1 %	2,35 %	4,58 %
Corporates	24,7 %	1,67 %	7,12 %
RRB		1,74 %	4,53 %

Source: ftse.com

Since BCE will pay for this acquisition with the proceeds from the sale of Maple Leaf, there is no impact on debt ratios. However, investors are wondering about BCE's long-term strategy in the United States. Will it expand its network again and start competing with the deep-pocketed American giants? Such an avenue would considerably change debt levels.

Given that the majority of provincial financing is in the long-term sector, policy rate cuts don't necessarily mean lower interest costs for the province. There are also risks to the Quebec economy with the new Trump administration. Exports account for 45% of the province's GDP, 75% of which goes to the United States.

STRATEGIC POSITIONNING

The US economy remains robust, with demand still in excess of growth potential. This is the canvas that Donald Trump will get when he is inaugurated in January. He has also campaigned on economic measures that will stimulate the economy. He wants to extend the tax cuts enacted in 2017 and reduce the corporate tax rate from 21% to 15%. If he gets the support of Congress (very likely), he will fan the flames of excess demand already in place. He also wants to deport nearly 11 million illegal immigrants, many of whom work illegally in key industries. This measure, difficult to implement, will tighten conditions in the labour market and could propel wages upwards. Finally, he has already begun to use international trade as a basis for negotiation, threatening his partners with high tariffs. If he targets just one country, the effect will be dissolved by currency depreciation or a shift of production to another tariff-free country. On the other hand, if tariffs are imposed on all imports, consumer bills will rise. For example, if the current threats against Canada (25%), Mexico (25%) and China (10%) are carried out, inflation could rise by 0.75% in 2025, according to a Yale University estimate. We are therefore heading for a more uncertain economic environment, where inflation could resurface and threaten consumers' wallets.