MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

APRIL 2024

- True to form over the past 9 years, the Trudeau government has presented a budget deficit for the fiscal year 2024-25. After recording a $40 billion shortfall in 2023-24, the government expects to repeat history this year with a deficit of $39.8 billion, or 1.3% of GDP. Spending is expected to grow by 7.5% this year, with several measures announced in an attempt to find a solution to the housing shortage. To finance the spending increase, the Finance Minister has announced that ⅔ of annual capital gains in excess of $250,000 will now be taxed instead of half. The government is also banking on nominal GDP growth of 3.8%, which includes an annual inflation rate of 3.1%, 0.5% higher than the Bank of Canada's forecast.

Together, these housing-related measures aim to create 3.9 million new homes over 7 years. This represents an annual average of around 550,000 new homes or twice as many as in a good construction year. Where will they find the workers to build so many homes? And what impact will the increase in capital gains tax have on business investment? Economic growth and inflation control depend on business productivity and investment.

- U.S. GDP grew at an annualized rate of 1.6% in the first 3 months of the year, 1.8% less than in the previous quarter. However, the details point to a more robust economy. Consumer spending grew by 2.5%, while business investment rose by 2.9%. Residential real estate investment grew strongly (+13.9%), while government spending (1.2%) slowed compared with the quarterly average for 2023 (4.6%). Inventory reductions, on the other hand, had a slightly negative impact on growth, but the drag on GDP came from international trade. Exports rose slightly (+0.9%), while imports jumped by 7.2%.

Higher imports mean that households and businesses consume more, demonstrating the strength in spending. In fact, private final sales to domestic buyers rose by 3.1% in the first quarter, not far off the previous quarter's growth of 3.3%. The economy is therefore still vigorous, and inflation is accelerating. The Personal Consumption Expenditure price index rose by 2.7% year-on-year in March, 0.2% more than in February. Sticky inflation is worrying for the Fed.

- Inflation in Europe stabilized in April, according to a preliminary reading of the consumer price index. Prices rose by 0.6% month-on-month in April, and by 2.4% over the past year. Excluding food and energy prices, core inflation is now running at an annual rate of 2.7%, 0.2% lower than in March. This is the weakest reading since February 2022. This deceleration is attributable to services prices, which rose by 3.7% year-on-year versus 4.0% the previous month.

Conditions are therefore becoming increasingly favourable for the ECB to take comfort from the fact that inflation is making a lasting return to its 2% target. The ECB still has the luxury of time, as the economy expanded in the first quarter after two consecutive quarters of contraction in the last half of 2023.

RATE TRENDS

- The slowdown in inflation was not convincing enough to prompt the Bank of Canada to cut its policy rate in April. The Bank announced that it was keeping its rate at 5.0%, allowing itself to amass further evidence that the downward trend in inflation is sustainable. Growth forecasts for the Canadian economy have been sharply revised upwards for 2024. GDP is expected to grow at an annualized rate of 2.8% in the first quarter and 1.5% in the second. The Bank justifies this stronger growth by population growth, recently announced fiscal measures and the robustness of the US economy. Inflation is expected to slow, however, as the economy's potential growth has also been boosted by immigration.

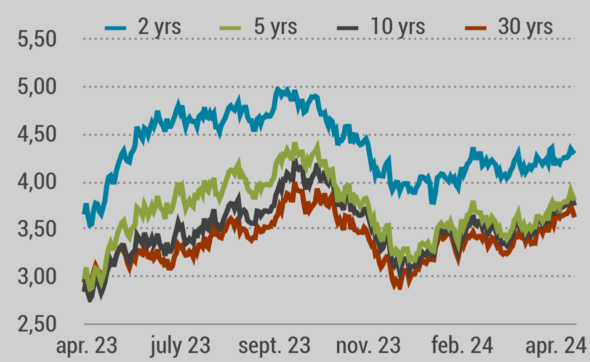
It is very difficult to understand how the Bank can make substantial revisions to economic growth and potential on the pretext of high immigration. This demographic conjuncture was well known when they first expected lower growth. All in all, the Bank is getting closer to easing, but must be patient. The Federal Reserve does not appear to be in a hurry to ease financial conditions any time soon, as inflation has recently picked up. A Canadian monetary policy moving in the opposite direction to that of the United States would weaken our dollar. The authorities are aware of this risk.

BOND RATES

April 30, 2024	Canada	Monthly Change	Change 2024	United States	Monthly Change	Change 2024
Key Interest Rate	5,00 %	0,00 %	0,50 %	5,50 %	0,00 %	0,50 %
3 months	4,95 %	-0,06 %	-0,11 %	5,39 %	0,03 %	0,06 %
2 years	4,35 %	0,17 %	0,46 %	5,04 %	0,42 %	0,79 %
5 years	3,87 %	0,34 %	0,69 %	4,72 %	0,51 %	0,87 %
10 years	3,82 %	0,35 %	0,71 %	4,68 %	0,48 %	0,80 %
30 years	3,67 %	0,32 %	0,64 %	4,78 %	0,44 %	0,76 %
RRB 30 years	1,71 %	0,30 %	0,41 %			

Source: Bloomberg

CANADIAN RATE TRENDS



CREDIT BOND RISK PREMIUMS

Issuers	Credit Rating DBRS	Spread 5 yrs	Spread 10 yrs	Spread 30 yrs	Change 5 yrs month	Change 5 yrs 2022	Change 10 yrs month	Change 10 yrs 2022	Change 30 yrs month	Change 30 yrs 2022
Royal Bank, Bail-in-debt	AA	105	140	170	0	-25	0	-25	0	-25
Royal Bank, NVCC	A	150	195	235	-5	-35	-5	-35	-5	-35
Sun Life, subordinated debt	A	125	165	200	-5	-40	-5	-40	-5	-35
Hydro One	A high	75	105	135	0	-10	-5	-10	0	-5
Enbridge Inc	BBB high	115	160	210	-5	-15	-5	-15	-5	-10
Altalink LP	A	75	105	135	0	-10	-5	-10	0	-5
GTAA	A high	70	100	130	0	-10	-5	-10	0	0
Bell Canada	BBB high	115	155	200	0	-10	0	-10	0	0
Rogers Communications	BBBL	125	165	210	-5	-20	-5	-20	-10	-20
Loblaw	BBB high	100	140	175	0	-5	0	0	0	0
Canadian Tire	BBB	125	170	215	5	5	5	10	5	10
Province Québec	AA low	39	72	96	0	1	0	6	3	8
Province Ontario	AA low	40	71	94	0	0	0	3	3	4
CMHC	AAA	30	42	---	2	2	0	-2		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bonds new issuance totalled $5.8 billion in April, down $3.9 billion from the previous month, but $1.4 billion more than in April 2023. Year-to-date, bond financing totals $38.1 billion, up 41% on the same period last year. The automotive industry carried out two financings, including one from General Motors Financial of Canada. The company's credit rating was upgraded to BBB last year by Moody's and Fitch.

- Rogers Communications Inc. has reported good financial results for the first quarter of the year. The company's revenues were up 28% on the same period last year, while EBITDA jumped 35% over the same period to $2.214 billion. However, net income fell by 50% to $256 million, due to costs related to the Shaw acquisition. Rogers' debt-to-EBITDA ratio is now 4.8x, but the company plans to gradually reduce this over the coming quarters, reaching 3x in the first quarter of 2026. To achieve this, Rogers is counting on cost synergies since the Shaw acquisition, the sale of non-core assets (approximately $1 billion) and strong EBITDA growth. The company's credit rating is at the bottom of the investment grade zone (BBB-), but the outlook is now stable across the board.

- The resolution of the Quebec labor dispute at the start of the year boosted the province's economy in January. Quebec's GDP jumped by 1.9% in the first month of the year, erasing the contraction observed in December (-1.5%). On a year-on-year basis, GDP is now slightly up at 0.1%, compared with 0.9% for Canada as a whole. While education (+22.9%) and health care (+4.0%) contributed significantly to this monthly growth, other industries also played their part. In fact, 17 of the 20 industries listed posted gains in January, the most widespread economic growth since September 2020 in the midst of the pandemic. Excluding sectors that were on strike in December and utilities, GDP still posted a monthly gain of 0.3% in January. In 2023, the Quebec economy grew by 0.2%, compared with 1.6% in Ontario and 1.5% in Alberta.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Apr. 2024	2024
Universe	100 %	-2,00 %	-3,20 %
Short Term	43,2 %	-0,40 %	-0,08 %
Mid Term	28,7 %	-1,96 %	-3,06 %
Long Term	28,1 %	-4,46 %	-7,91 %
Federal	40,1 %	-1,68 %	-2,83 %
Provincial	33,4 %	-2,91 %	-5,06 %
Corporates	24,6 %	-1,24 %	-1,18 %
RRB		-3,49 %	-5,24 %

Source: ftse.com

In recent years, telecom companies have taken advantage of strong population growth to sell cellular packages to newcomers. The federal government's new immigration targets should bring population growth back to a more normal pace, forcing telecom companies to be more disciplined in managing the costs and prices of the packages they sell.

Demand in Quebec is weakened by less vigorous population growth (2.5%) than in Ontario (3.5%). The Legault government is looking to prop up the economy with a deficit of nearly $11 billion in 2024-25. The more fragile economic situation, combined with increased borrowing in the coming years, is putting pressure on yield spreads.

STRATEGIC POSITIONNING

Until now, central banks have worked in harmony to stimulate economic growth during the pandemic and then tighten financial conditions to stem persistent high inflation. This unity of monetary policies may soon come to an end. Their respective economic conditions no longer allow them to espouse the same rhetoric. In the United States, the Federal Reserve has maintained its policy rate at 5.5%, as economic activity continues to expand at a steady pace and progress towards the 2% inflation target has stalled. Various inflation and wage measures have accelerated recently, delaying the likelihood of a rate cut until the end of the year. On the other hand, easing financial conditions are more imperative in Canada and Europe, due to a more fragile economic environment and a more sustainable deceleration of inflation. But how far can Bank of Canadian policy rate diverge from that of the Fed? At present, our key rate is 0.5% lower than that of the Federal Reserve. The gap could widen to 1.0% without too much adverse impact on our currency and inflation. Excess supply in our economy would provide a cushion against import inflation. Beyond a 1% deviation, the effects on the currency could be damaging to the Bank of Canada's job of controlling inflation. Tiff Macklem can pride himself on having an independent monetary policy, but not as much as he'd like.