MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

JANUARY 2021

- Employment fell by 62,600 in Canada in December, propelled by losses in part-time jobs (-99,000). This was the first decline in employment since last April. The service industry was directly affected by public health measures, resulting in a loss of 74,000 jobs, including 56,700 in accommodation and food services. In contrast, goods-producing industries added 11,300 jobs last month, mainly in manufacturing (15,400). The annual increase in average hourly earnings is now 5.4% compared to 4.8% last month.

Employment also fell by 213,000 in January, bringing the total loss since the beginning of the pandemic to 858,000 jobs. The situation is expected to partially recover in February with the gradual reopening that allows merchants to operate. The increase in average hourly earnings is not a reflection of increased demand, but is due to the fact that the jobs lost are in low-wage industries.

- The U.S. economy grew at an annualized rate of 4% in the fourth quarter, bringing the contraction for 2020 to 3.5%, the worst annual performance since 1946. Consumer spending (+2.5%) grew at a slower pace than expected due to the uncertainty related to Covid and the reduction in government support, some of those programs were coming to an end at the end of the year. Investment grew by 25.3%, particularly residential real estate investment, which continued to grow strongly (33.5%). Net exports was a drag on growth, reducing GDP by 1.5% for the quarter, as imports grew faster than exports.

The U.S. economy should get a boost from the Biden administration, which is betting on a $1.9 trillion support plan, including a new $1,400 cheque to taxpayers earning less than $75,000 annually. It would be more appropriate to target the support to prevent the stimulus from finding its way into brokerage accounts and increase risks in the financial markets.

- The Chinese economy grew by 2.6% between the third and fourth quarters, bringing growth in 2020 to 2.3%. Although this is the weakest growth in more than 40 years, China will be the only major economy not to contract in 2020. Retail sales are up 3.9% in 2020, while state-supported industrial production ended the year strong, growing 2.8% for the year as a whole.

China has been more successful in controlling the pandemic and stimulating its economy. China's high growth prospects and investors' search for yield have raised fears of another stock market bubble like 2015 when chinese authorities had to intervened to control the boom. Will they be more patient this year if there is financial instability?

RATE TRENDS

- The Federal Reserve maintained its monetary policy unchanged after its first meeting of the year. The Fed recognizes that the recovery has moderated recently, especially in industries directly affected by the pandemic such as food services. Monetary policy will remain very accommodative until the economy reaches full employment, thereby welcoming higher inflation. The direction of the economy will depend on the evolution of the pandemic and progress in vaccination campaigns. Asked about the Fed's responsibility in the recent extreme variations in certain financial assets (Gamestop or Bitcoin), Jerome Powell does not trace a direct link between monetary policy and asset prices. According to him, the recent increases are mainly explained by hopes linked to vaccination and government support that has increased household incomes and savings.

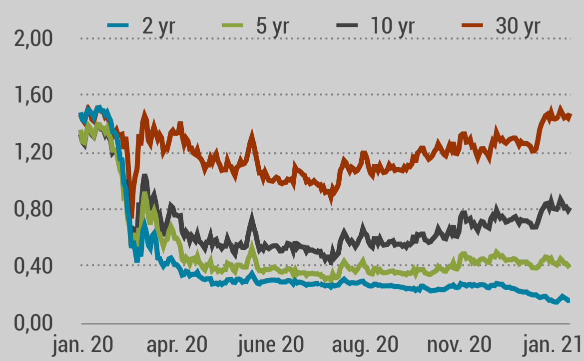
The Federal Reserve has frequently called on governments to increase their economic support by indicating the limits of monetary policy in times of pandemic. Today, it is targeting this support as a source of volatility. It is true that many households got a cheque without losing employment income. The marked increase in savings has found its way into the financial markets, but monetary policy is also contributing. Floor rates facilitated short selling of securities by hedge funds. The use of margin investment accounts with low funding rates also contributed to increased volatility.

BOND RATES

Jan. 29, 2021	Canada	Monthly Change	Change 2021	U.S.	Monthly Change	Change 2021
Key Interest Rate	0,25 %	0,00 %	0,00 %	0,25 %	0,00 %	0,00 %
3 months	0,07 %	-0,01 %	-0,01 %	0,05 %	-0,01 %	-0,01 %
2 years	0,16 %	-0,05 %	-0,05 %	0,11 %	-0,01 %	-0,01 %
5 years	0,42 %	0,03 %	0,03 %	0,42 %	0,06 %	0,06 %
10 years	0,89 %	0,21 %	0,21 %	1,07 %	0,15 %	0,15 %
30 years	1,47 %	0,26 %	0,26 %	1,83 %	0,18 %	0,18 %
RRB 30 years	-0,10 %	0,19 %	0,19 %			

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 2021	Change 10 yrs month	Change 10 yrs 2021	Change 30 yrs month	Change 30 yrs 2021
Royal Bank, Bail-in-debt	AA	60	95	145	-5	-5	-10	-10	-10	-10
Royal Bank, NVCC	A	90	130	185	-10	-10	-10	-10	-10	-10
Sun Life, subordinated debt	A	80	120	175	-10	-10	-10	-10	-10	-10
Hydro One	A high	50	80	125	0	0	-5	-5	-5	-5
Enbridge Inc	BBB high	90	145	215	-5	-5	-5	-5	-20	-20
Altalink LP	A	50	75	120	0	0	-5	-5	-5	-5
GTAA	A high	55	85	130	5	5	0	0	0	0
Bell Canada	BBB high	75	125	195	-5	-5	-5	-5	-5	-5
Rogers Communications	BBB	75	125	195	-5	-5	-5	-5	-5	-5
Loblaw	BBB high	70	120	190	-5	-5	-5	-5	-5	-5
Canadian Tire	BBB	90	145	245	-5	-5	-10	-10	-10	-10
Province Québec	AA low	29	54	78	-1	-1	-3	-3	-1	-1
Province Ontario	AA low	33	59	79	-2	-2	-3	-3	-2	-2
CMHC	AAA	20	31	---	-1	-1	-1	-1		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bonds new issuance reached $6.9 billion in January, up $1 billion from the previous month, but $1.5 billion less than in January 2020. The auto industry was active with 3 issues, including two from BMW Canada. Rated A in the index, one of the issues matures in 2025 and offered a yield premium of 0.60% over Canada bonds of the same maturity. By way of comparison, CIBC (AA) issued a bail-in debt maturing in 2026 with a 0.67% premium. The automotive industry is in the midst of a shift towards electric vehicles and the yield premium offered does not appear to discount this operation risk.

- The Quebec company Alimentation Couche-Tard made a non-binding offer to acquire the European retail giant Carrefour at a price of €20 per share. This transaction was therefore valued at $25 billion, most of which should have been paid in cash. Couche-Tard had to withdraw its offer in the face of strong opposition to the transaction from the French government, citing France's food sovereignty, especially in times of pandemic such as today. The Minister of Economy would have clearly indicated to the leaders of Couche-Tard that "for political reasons, it was impossible to sell Carrefour fifteen months before the presidential election". Carrefour currently holds 20% of the French grocery market and employs 105,000 workers, making it the largest employer in the French private sector. The intention to create a central buying group after the acquisition also worried the French government about the impact on employment.

- The rating agency S&P downgraded the credit ratings of 4 Canadian airports by one notch while maintaining a negative outlook on 6 airports. The pandemic and Canadian border closures have severely disrupted the operations of Canadian airports and their ability to generate revenue. As the financial ratios of 4 airports deteriorated, S&P decided to downgrade their ratings. "While the distribution of recently approved vaccines is promising, widespread availability and acceptance of these vaccines, which are important in restoring demand for air travel, may not occur until mid-2021 or later," the agency said.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Jan.-21	2021
Universe	100 %	-1,11 %	-1,11 %
Short Term	41,2 %	0,13 %	0,13 %
Mid Term	25,4 %	-0,48 %	-0,48 %
Long Term	33,4 %	-3,05 %	-3,05 %
Federal	33,8 %	-0,85 %	-0,85 %
Provincial	37,5 %	-1,75 %	-1,75 %
Corporates	26,6 %	-0,54 %	-0,54 %
RRB		-2,29 %	-2,29 %

Source: ftse.com

One year before a presidential election, the government did not want to rekindle the populist flame of the yellow vests that invaded France in 2019. Nevertheless, what worries investors is Couche-Tard's change in strategy to reduce its dependence on fuel by seeking to become one of the world's leading retailers.

Due to federal restrictions, increased government support for Canadian airports is very likely. Because of the essential nature of their operations in terms of transportation for necessities, medications and vaccines, airports would be entitled to receive at least one extension of the federal rent vacation that expired last December.

STRATEGIC POSITIONNING

The digital version of Occupy Wall Street caught investor's attention at the beginning of the year and illustrates the disconnect that exists between the value of certain assets and the economy that is still struggling with the pandemic. The Gamestop episode also highlights the risks associated with an overly accommodating monetary policy and an overly generous fiscal policy towards certain households. The significant monetary creation resulting from these policies has made investors insensitive to asset prices while allowing zombie businesses to continue to access capital and operate, thereby undermining long-term productivity. Zero-rate monetary policy also makes it easy to use lines of credit for investment and makes short selling more accessible by reducing the cost of borrowing securities. Is it normal to be able to short sell more than 140% of the outstanding shares? Due to health measures imposed everywhere that restrict consumption, printed money has inflated savings and brokerage accounts, propelling up asset prices. Once the measures are lifted, pent-up consumer demand will manifest itself and the effect on asset prices will be transferred to goods and services. In contrast to the financial crisis, households are not in deleveraging mode, their net assets remain high, and the banking system is well capitalized to support growth. These elements point to inflationary pressures in the future.