MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

SEPTEMBER 2021

- The Consumer Price Index in Canada rose 0.2% in the last month and 4.1% in the last 12 months. This is the highest annual growth since 2003. The easing of health measures has increased demand for travel. As a result, both airfare and hotel room prices jumped 37.5% and 12% respectively in August. Despite this increase, tour prices are still down 20.8% in the past year. Prices for vehicles (+7.2%), furniture (+8.7%), and appliances (+5.3%) all showed significant annual increases.

Supply problems and resulting shortages are putting pressure on prices in certain industries such as automotive and furniture. In addition, the Canadian economy continues to face labour shortages and a robust housing market, both of which could push inflation higher.

- U.S. job vacancies climbed by 749,000 to 10.9 million in July, a new record. Job openings rose in several industries, with the largest gains in health care and social assistance (+294,000), finance and insurance (+16,000), and accommodation and food services (+115,000). This increase comes as hiring slowed down in August. Still, there were 8.4 million unemployed in August, which is far less than the number of jobs available.

Is the imbalance in the labor market the result of a skills mismatch or of generous government programs? In this regard, more than 7.5 million Americans lost their $300 per week bonus on September 6. So we will soon know if the withdrawal of support forces a return to work. The longer the labor shortage persists, the higher the wages will have to go.

- China's official NBS manufacturing activity index fell from 50.1 in August to 49.6 in September, signaling the first contraction in the manufacturing sector since February 2020. Production, new orders, and exports sub-indices posted readings below the critical 50 threshold that delineates expansion from contraction. Several factors contributed to slowing Chinese factory activity such as the Delta variant, bottlenecks in global supply chains and successive power outages.

Currently, 17 provinces, representing about ⅔ of the country's GDP, have announced rotating power outages. The outages are the result of a boom in the price of coal (China's main source of electricity) coupled with authorities' desire to reduce pollution by going green. This is further exacerbating disruptions to global chains, raising future shortages and prices.

RATE TRENDS

- The Federal Reserve extended monetary policy at the conclusion of its September meeting, but is rapidly approaching a reduction in its asset purchase program. "If progress (toward maximum employment and price stability goals) continues as expected, the committee judges that a moderation in the pace of asset purchases may soon be warranted," the statement specified. In a press conference, Jerome Powell indicated that he did not need to see a significant increase in employment in September to ensure that the substantial progress condition was met. In addition, a total of nine committee members now expect to raise the policy rate next year, two more than last June. The Fed's view of inflation also appears to be changing. Jerome Powell indicated at the end of the month that price pressures appear to be more persistent than the Fed had originally anticipated.

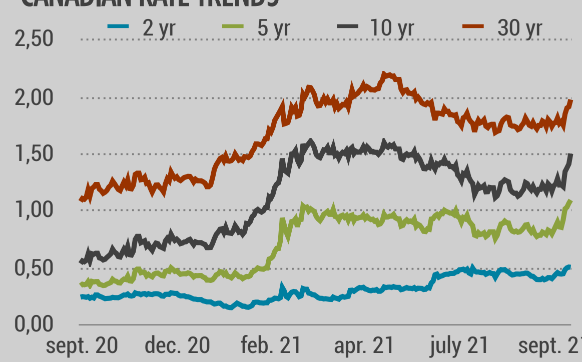
The Fed could therefore announce a reduction in its asset purchase program at its next meeting in November. This reduction would start in December and could be spread over 6 months, allowing the Fed to analyze the impact of its withdrawal before raising rates at the end of the year. This appears to be the plan unless some event disrupts it. On the other hand, the Fed would find itself behind other central banks. South Korea, Mexico, Norway and New Zealand have all announced rate hikes to control inflation and ease financial imbalances caused by overly generous monetary policy.

BOND RATES

Sept. 29, 2021	Canada	Monthly Change	Change 2021	United States	Monthly Change	Change 2021
Key Interest Rate	0,25 %	0,00 %	0,00 %	0,25 %	0,00 %	0,00 %
3 months	0,13 %	-0,03 %	0,06 %	0,03 %	-0,01 %	-0,03 %
2 years	0,53 %	0,11 %	0,33 %	0,29 %	0,08 %	0,17 %
5 years	1,11 %	0,27 %	0,71 %	0,99 %	0,21 %	0,63 %
10 years	1,51 %	0,29 %	0,83 %	1,52 %	0,21 %	0,60 %
30 years	1,99 %	0,22 %	0,78 %	2,06 %	0,13 %	0,42 %
RRB 30 years	0,27 %	0,15 %	0,56 %			

Source: Bloomberg

CANADIAN RATE TRENDS



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CREDIT BOND RISK PREMIUMS

Émetteurs	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	70	100	145	-5	5	-5	-5	-5	-10
Royal Bank, NVCC	A	100	140	190	-5	0	-5	0	-5	-5
Sun Life, subordinated debt	A	90	130	180	0	0	0	0	0	-5
Hydro One	A high	65	95	135	0	15	0	10	5	5
Enbridge Inc	BBB high	105	150	230	5	10	5	0	5	-5
Altalink LP	A	65	90	130	0	15	0	10	5	5
GTAA	A high	65	95	135	0	15	0	10	5	5
Bell Canada	BBB high	95	140	205	0	15	0	10	0	5
Rogers Communications	BBB	115	160	230	0	35	0	30	0	30
Loblaw	BBB high	85	130	190	0	10	0	5	0	-5
Canadian Tire	BBB	95	145	235	0	0	0	-10	0	-20
Province Québec	AA low	22	54	73	-4	-8	-1	-3	-4	-6
Province Ontario	AA low	26	59	77	-3	-9	-2	-3	-4	-4
CMHC	AAA	18	35	---	-3	-3	-2	3		

Source: National Bank Financial

CREDIT MARKET

- New Canadian corporate bond issuance totaled $10.1 billion in September, up $6.3 billion from the previous month, but $700 million less than in September 2020. Year-to-date, bond financings totaled $87.9 billion, down 3% from last year. Among the issuers is CGI Inc.'s first bond issued in the Canadian capital market. Unlike the company's other debt, this new bond does not have any guarantees on CGI's operating companies assets. As a result, the company's other debts are structurally superior than this new bond in the event of liquidation of the company, a subordination that was not identified by the rating agencies and which required a higher yield premium.

- The Ontario government has presented a much improved version of its public finances. The deficit for the 2020-21 fiscal year is now $16.4 billion instead of the $38.5 billion projected in the budget delivered last November. This $22 billion improvement in the deficit comes from a $13 billion increase in provincial revenues and a $9 billion decrease in spending. Multiple government support programs from all levels have increased the province's tax revenues. As a result, the net debt-to-GDP ratio has fallen from 47.1% at the time of the budget to 43.9%. Ontario is not the only province to present an improved budget, as Nova Scotia also announced that its deficit would reach $445 million, an improvement of $140 million over the March budget due to higher than expected tax revenues.

- The four-month battle between Canadian railways CN and CP to acquire U.S. rival KCS finally came to an end in September. KCS finally accepted CP's US$31-billion offer, which will make the new entity the first to operate a rail network from Canada to Mexico. The final price represents a 34% premium to the closing price on August 9, 2021 - the date before which CP submitted a revised offer to acquire KCS. CP will fund the transaction in cash through a combination of cash and debt amounting to approximately US$8.5 billion, for which financing has been committed. The deal is now subject to U.S. and Canadian regulatory approval.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Sept. 2021	2021
Universe	100 %	-1,40 %	-3,95 %
Short Term	41,2 %	-0,35 %	-0,44 %
Mid Term	25,9 %	-1,38 %	-3,01 %
Long Term	32,8 %	-2,69 %	-8,85 %
Federal	34,1 %	-1,20 %	-3,35 %
Provincial	37,3 %	-1,80 %	-5,55 %
Corporates	26,4 %	-1,06 %	-2,39 %
RRB		-1,47 %	-4,29 %

Source: ftse.com

Quebec can also be expected to post a deficit well below expectations. The province grew by 3.4% in the second quarter, clearly better than Canada (-1.1%). Better management of health measures allowed Quebec's GDP to return to its pre-pandemic level more quickly.

CN is not out of the woods yet. Its second-largest shareholder is calling for changes in senior management. CN should focus on improving its operations instead of making acquisitions, said TCI Fund Management. These demands seem biased, as this fund is also CP's largest shareholder and they did not like overbidding themselves for

STRATEGIC POSITIONNING

For the Federal Reserve and its chairman Jerome Powell, inflation is proving to be more persistent than they previously thought. Bottlenecks, hiring difficulties and other constraints may prove to be more significant and more persistent than previously thought," said Powell. In this regard, the successive power outages in China are adding to the constraints on global production, which is struggling to meet strong demand. Europe is also experiencing a price increase (3.4%) not seen since September 2008, while inflation in Germany (4.1%) has not been this robust since 1992 when the country was reunified. This only affects certain goods, say the defenders of the transitional thesis. They should also look at the US GDP deflator (4.1%), which is sitting at a 1989 peak. Why this indicator? Because instead of focusing on consumer spending as the CPI does, it also takes into account business and government spending. In addition, the deflator better represents the current economy since the CPI uses a static consumption basket. The pandemic has quickly changed household consumption patterns, which is slow to be reflected in the CPI, but not in the deflator. Inflation is the result of a global supply problem that cannot catch up to strong consumer demand supported by overly accommodative policies, and it is time for central banks to correct this.