MONTHLY BOND LETTER

AlphaFixe Capital

FEBRUARY 2022

ECONOMIC EVENTS

- The Canadian economy grew at an annualized rate of 6.7% in the fourth quarter, bringing growth to 4.6% for the year 2021 compared to 5.7% for our southern neighbor. With this gain, the Canadian economy has returned to its pre-pandemic level. GDP was driven primarily by business inventory restocking, which accounted for over 60% of the growth in the last quarter. Household spending grew by 1.0% after jumping 20.4% in the previous quarter. However, the composition of spending has changed. With less Covid restrictions, spending on services increased by 2.4 % while spending on goods contracted by 0.7%.

As in the U.S., inventory accumulation drove growth in the fourth quarter. Inventory rebuilding is helping to alleviate shortages and price pressures. On the other hand, this may be the beginning of a change in business management. The pandemic has taught us to be less dependent on supply chains and build a reserve.

- The U.S. consumer price index (CPI) rose 0.6% in January, bringing the annual change to 7.5%, the highest since February 1982. Excluding food and energy, the core index also rose 0.6% in January and 6.0% in the past year. Price pressure was evident across the entire consumer basket with the exception of a few pandemic-related items such as hotel rooms (-4.2%), vehicle rentals (-7.0%) and tickets to sporting events (-1.4%). In fact, 91% of the items that make up the index's consumer basket show an annual increase of more than 2.0%, which is the Federal Reserve's inflation target.

A significant portion of the price growth is attributable to shortages in the goods industries resulting from supply problems. However, there is some light at the end of the tunnel. Fewer and fewer executives feel that inventories are too low according to the NFIB Confidence Index. However, the situation is different for service industries with growing demand and capacity constrained by staffing shortages.

- The annual inflation rate in Europe rose from 5.1% in January to 5.8% the following month, a new high for the eurozone. Energy (31.7%) and food (4.1%) prices continue to drive inflation, but price pressure is also being felt elsewhere. Non-energy industrial goods prices (3.0%) as well as services prices (2.5%) continued to rise at a pace above the ECB's target. Excluding food and energy, the core index rose by 2.7% in February.

The ECB finds itself in a difficult position. On the one hand, inflation is rising rapidly and proving to be more persistent than expected, but on the other hand, the conflict in Ukraine will have a more severe direct economic impact on Europe than in North America. The ECB was already timid in withdrawing monetary stimulus, the latest events may reduce the possibility of a rate hike in 2022.

RATE TRENDS

- Not surprisingly, the Bank of Canada raised its policy rate by 0.25% to 0.50%. However, the Bank of Canada is maintaining its balance sheet maturity reinvestment program until it becomes appropriate to lower it. The Canadian economy is recovering faster than expected from the Omicron wave, household spending is resilient and should strengthen with the easing of health measures and housing remains robust. A combination of elements should propel growth again in the first quarter. Demand remains strong amid supply disruptions, still causing inflationary pressures that require monetary tightening. The invasion of Ukraine is also seen as inflationary with rising oil and commodity prices, but the uncertainty could weigh on global growth in the longer term.

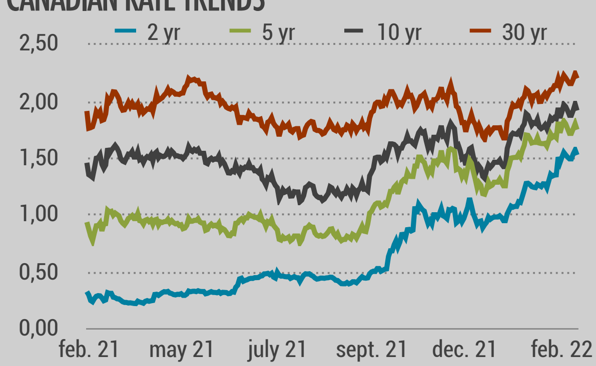
The Bank of Canada has deemed it appropriate to fight inflation by raising its policy rate, but is leaving itself room to manoeuvre before using balance sheet reduction as a monetary tightening tool. Economic sanctions against Russia could disrupt the financial system and the Bank of Canada, like other central banks, will surely want to keep some ammunition in case the situation deteriorates further. Canada joins a select club of central bankers who have raised rates this year while warning investors that more rate hikes will follow. The Federal Reserve is expected to follow suit on March 16th.

BOND RATES

Feb. 28, 2022	Canada	Monthly Change	Change 2022	U.S.	Monthly Change	Change 2022
Key Interest Rate	0,25 %	0,00 %	0,00 %	0,25 %	0,00 %	0,00 %
3 months	0,34 %	0,17 %	0,17 %	0,18 %	0,15 %	0,15 %
2 years	1,28 %	0,32 %	0,32 %	1,18 %	0,45 %	0,45 %
5 years	1,63 %	0,37 %	0,37 %	1,61 %	0,35 %	0,35 %
10 years	1,77 %	0,35 %	0,35 %	1,78 %	0,27 %	0,27 %
30 years	2,05 %	0,37 %	0,37 %	2,11 %	0,20 %	0,20 %
RRB 30 years	0,33 %	0,45 %	0,45 %			

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 2022	Change 10 yrs month	Change 10 yrs 2022	Change 30 yrs month	Change 30 yrs 2022
Royal Bank, Bail-in-debt	AA	115	145	185	15	30	15	30	15	30
Royal Bank, NVCC	A	150	190	235	15	40	15	40	10	35
Sun Life, subordinated debt	A	135	175	225	20	35	20	35	20	35
Hydro One	A high	90	125	155	15	25	15	25	10	20
Enbridge Inc	BBB high	150	200	265	25	40	30	45	20	35
Altalink LP	A	90	125	155	15	25	15	25	10	20
GTAA	A high	85	120	150	10	15	10	20	10	20
Bell Canada	BBB high	140	185	240	25	40	25	40	20	35
Rogers Communications	BBB high	165	210	270	25	35	25	35	20	35
Loblaw	BBB high	130	175	215	25	40	25	40	15	25
Canadian Tire	BBB	135	185	260	25	40	25	40	20	30
Province Québec	AA low	41	66	87	2	8	3	10	5	13
Province Ontario	AA low	45	69	90	2	8	2	8	4	12
CMHC	AAA	35	48	---	2	4	3	7		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance totaled $5.6 billion in February, down $4.2 billion from the previous month and $3.8 billion less than in February 2021. Year-to-date, bond financings totaled $15.5 billion, down 5% from this time last year. The automotive sector has been active with 3 transactions, including a first for Hyundai Capital Canada with a $500 million issue for a 5-year term offering a yield premium of 1.50% over Government of Canada bonds. However, it is the situation in Ukraine that has been the focus of attention since February 24th. Yield spreads have continued to widen since the beginning of the year as investors seek refuge in safer assets.

- Alberta's Finance Minister forecasts a $3.2 billion deficit for 2021-22, including a $3.3 billion payment to the contingency fund. This is a $2.6 billion improvement over the last forecast. For the next fiscal year beginning April 1st, the province expects to generate a surplus of $511 million due to higher oil prices. Revenues are expected to grow by 1.5% based on an average WTI price of $70 per barrel for the full year. In fact, Alberta estimates that it will be able to balance its budget until 2024-25. As a result, funding requirements will be lower than in the past. Alberta will need to borrow $3.5 billion in 2022-23, including $2.6 billion in bonds. In the current fiscal year (2021-22), the province had to borrow $8.6 billion and $25.4 billion the previous year.

- Moody's and Fitch have downgraded Russia's credit rating below investment grade due to the sanctions imposed by different countries. In addition, U.S. bank JP Morgan announced a revision of the composition of its bond indices in response to the sanctions imposed on Russia. Russian bonds will be excluded from all of JPMorgan's fixed income indices as of March 31st, including the Emerging Market Government Bond Index, better known as EMBI. JP Morgan has also suspended the inclusion of Ukraine's debt in the same index, which was scheduled to take place at the end of March. The debts of Russia and Belarus are also excluded from the JPMorgan ESG Index as of March 31st.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Feb. 2022	2022
Universe	100 %	-0,72 %	-4,10 %
Short Term	40,1 %	-0,16 %	-1,11 %
Mid Term	27,9 %	-0,43 %	-3,07 %
Long Term	32,0 %	-1,66 %	-8,41 %
Federal	35,2 %	-0,31 %	-2,64 %
Provincial	36,5 %	-0,87 %	-5,50 %
Corporates	26,2 %	-1,04 %	-3,95 %
RRB		-0,25 %	-6,96 %

Source: ftse.com

Using $70 oil in its forecast, the province has tabled a conservative budget that leaves room for improvement. In addition, the situation in Ukraine is making Canadian oil more attractive. Although it is considered polluting, Alberta oil is produced in a democratic country where the rule of law applies.

While ESG factors are often associated with climate change, social and governance issues are also important and should also be considered in a thorough assessment. While JPMorgan can easily remove these assets from the benchmark portfolio with the stroke of a pen, managers struggling with these liabilities will not be able to sell them as easily.

STRATEGIC POSITIONNING

The humanitarian crisis resulting from the war in Ukraine is overwhelming and the economic consequences of this conflict are beginning to be felt around the world. Russia is the second largest producer of natural gas in the world after the United States and the third largest oil player in the world with 11% of production. In addition, Russia and Ukraine together account for 25.4% of global wheat exports, while Ukraine's share of global corn exports is 16%. Global chip production could also be disrupted as Ukraine currently supplies 50% of the world's production of neon gas, a rare gas essential for chip production. Therefore, this conflict adds a layer to the inflationary pressures that already persist and haunt central banks. In response to this invasion, the G7 countries have announced a series of economic sanctions seeking to isolate Russia from the global economy. These measures could create collateral damage in the financial system and cause a domino effect. This risk is one to watch. On balance, the pandemic and the invasion of Ukraine will bring about a change in the global economic order. The deflationary effect of globalization could be a thing of the past as countries return to block trade and inventory rebuilding to avoid shortages. This long-term change may prove to be more inflationary and cyclical than what has been experienced recently.