MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

JUNE 2020

- Fitch downgraded the Government of Canada's credit rating by one notch to AA+ with a stable outlook. Fitch estimates that Canada's public finances are deteriorating rapidly as the ratio of consolidated gross debt to GDP is projected to increase from 88% last year to 115% in 2020. The pandemic and lower oil prices will cause a severe recession in Canada this year, Fitch is forecasting a 7.1% decline in GDP in 2020 and a modest recovery next year (3.9%). The minority government will not help public finances, according to Fitch. The government has to respond to other parties priorities, delaying the return to a balanced budget.

Under normal circumstances, a credit rating downgrade would have had a negative impact on foreign investor's perception. Today, all governments are in the same boat, borrowing to support the economy during this pandemic. However, Canada entered this crisis in a precarious financial position, as a result of back to back deficits since 2015. Without the Bank of Canada, our borrowing cost would have jumped.

- In June, 4.8 million jobs were recovered in the United States, mainly in the private sector (4.77 million) and service industries (4.26 million). The hospitality industry (restaurants and hotels) accounted for nearly half of the new jobs (2.01 million) in June, while opening retail stores created 740,000 new jobs. Since the majority of the new jobs were in lower-income industries, the annual change in wages fell from 6.6% in May to 5.0% last month.

With the job gains of the last two months, the US economy has only recovered a third of the jobs lost during the crisis. However, the explosion of new Covid cases in recent weeks could slow the opening of the economy and job creation in some industries which are more likely to cause transmission, such as restaurants and bars.

- The OECD released its economic outlook for the world economy based on two likely scenarios. In the event of a single wave of Covid-19, the world economy is expected to contract by 6% this year and then grow by 5.2% in 2021. In contrast, in a second wave scenario, the world economy would fall by 7.6% in 2020, before rebounding at a rate of 2.8% next year. In Canada, the contraction would be 8% this year and 9.4% if there is a second wave of the pandemic.

The second-wave scenario is not negligible, but the authorities may not apply widespread confinement measures as they did at the beginning of the year. The approach would be more targeted to sectors at risk. The impact would be less, but the recovery would be much slower than initially expected and the economic damage more permanent.

RATE TRENDS

- The Bank of England kept its key rate at 0.10%, but raised its asset repurchase program by £100 billion to £745 billion. Although the decision on the policy rate was unanimous, one committee member objected to increasing the size of the buyback program. The monetary authority expects a long and difficult recovery. Although the economy fell by 20.4% in April, the Bank believes that the second quarter's fall will be less abrupt than initially expected.

- Like the Bank of England, the European Central Bank (ECB) also increased its European debt buyback program by €600 billion to €1,350 billion. In addition, the ECB will extend this programme until June 2021 and reinvest the maturities of the programme until December 2022. At the end of the second quarter, the ECB's balance sheet stood at $6,240 billion or 52% of euro area GDP. The Fed's balance sheet stood at 33% of GDP.

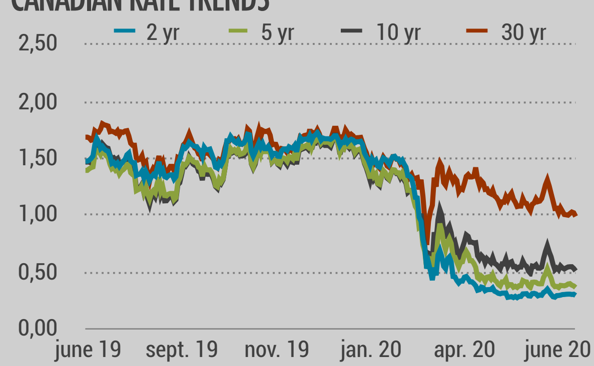
Central banks have exploded their balance sheets and extended their interventions beyond government securities to support financial markets. Authorities believe they can put these extraordinary tools back in the toolbox once financial and economic conditions improve. But history has proven otherwise. Every time the Fed has tried to stop intervening, the markets have reacted badly, forcing it to back off. Today, investors believe that central banks will remain in place for some time, at least until inflation emerges. If the monetary injection is the cause of inflation, they will demand a halt to monetary printing.

BOND RATES

June 30, 2020		Monthly Change	Change 2020		Monthly Change	Change 2020
Key Interest Rate	0,25 %	0,00 %	-1,50 %	0,25 %	0,00 %	-1,50 %
3 months	0,21 %	0,02 %	-1,45 %	0,13 %	0,00 %	-1,41 %
2 years	0,29 %	0,00 %	-1,41 %	0,15 %	-0,01 %	-1,42 %
5 years	0,37 %	-0,03 %	-1,32 %	0,29 %	-0,02 %	-1,40 %
10 years	0,53 %	-0,01 %	-1,17 %	0,66 %	0,00 %	-1,26 %
30 years	0,99 %	-0,13 %	-0,77 %	1,41 %	0,00 %	-0,98 %
RRB 30 years	-0,08 %	-0,18 %	-0,45 %			

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

Issuer	Credit rating DBRS	Spread 5 yrs	Spread 10 yrs	Spread 30 yrs	Change 5 yrs month	Change 5 yrs 2020	Change 10 yrs month	Change 10 yrs 2020	Change 30 yrs month	Change 30 yrs 2020
Banque Royale, Bail-in Debt	AA	110	140	180	-40	25	-45	20	-45	20
Banque Royale, NVCC	A	165	200	240	-50	45	-50	30	-50	30
Sun Life, Subordinated debt	A	150	185	225	-35	50	-40	40	-35	40
Hydro One	A high	90	120	155	-20	30	-15	35	-20	25
Enbridge Inc	BBB high	155	195	265	-45	55	-50	45	-30	45
Altalink LP	A	85	115	145	-20	30	-15	35	-25	25
GTAA	A high	95	125	160	-35	40	-35	45	-30	50
Bell Canada	BBB high	125	160	225	-30	25	-35	10	-30	20
Rogers Communications	BBB	120	155	220	-30	25	-35	10	-30	15
Loblaw	BBB	120	150	215	-25	15	-35	-5	-30	5
Canadian Tire	BBB	195	245	305	-25	95	-15	95	-15	100
Province Québec	AA low	47	74	85	-11	11	-10	15	-11	16
Province Ontario	AA low	49	77	87	-11	11	-10	15	-12	14
SCHL	AAA	33	39	---	-3	4	-4	1		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance reached $7.7 billion in June, down $9.9 billion from the previous month and $5.5 billion less than in June 2019. During the first half of 2020, total bond financing amounted to $70.3 billion, 44% higher than at the same time last year. Three new issuers entered the Canadian corporate bond market in June. They are Vancouver Airport Fuel Facilities Corporation, BCI QuadReal Realty and E-L Financial Corp. The Central Bank buyback programs have helped stabilize the corporate bond market and has allowed new issuers to access the capital market in the midst of the pandemic.

- The Quebec government deficit will reach a record $14.9 billion for the current fiscal year, including a $4 billion provision to offset the economic risks of a second wave of Covid. The province's revenues are expected to fall by 9% from the March budget, but will be only 1.8% lower than last year due to more generous federal transfers. The financial impact of the measures adopted in the context of the crisis amounts to $6.6 billion, including $3.7 billion for health care. The province does not plan to raise Quebecers' tax burden or reduce public services, preferring to use the stabilization fund to make up the shortfall in public finances. As a result, the debt will jump from 45% of GDP to 50.4% in 2020, while financing needs will rise by $18.2 billion to $32.1 billion. A return to a balanced budget is not expected for another five years.

- Propelled by strong demand from households that have stocked up on food, Canadian grocers published excellent financial results in the last quarter, but still decided to withdraw the $2 per hour bonus given to their front-line employees during the crisis. As a result, federal representatives invited leaders of major grocery stores to appear before a parliamentary committee to explain their decision. Metro announced a 45% increase in net earnings and a 7.8% increase in sales for the quarter ending March 14th while Loblaws closed its quarter on March 21st with net earnings up 34% over the same period last year. The increase in net earnings is even more pronounced at Sobeys with a 69.7% jump.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	June 2020	2020
Universe	100 %	1,69 %	7,53 %
Short Term	40,9 %	0,53 %	4,04 %
Mid Term	24,2 %	1,02 %	8,25 %
Long Term	34,9 %	3,53 %	11,35 %
Federal	33,0 %	0,50 %	7,52 %
Provincial	37,6 %	2,11 %	9,06 %
Corporates	27,2 %	2,57 %	5,41 %
RRB		2,40 %	6,28 %

Source: ftse.com

Covid-19 hit the province harder than anywhere else in the country, but Quebec entered this crisis in a good financial position. Although this is a record deficit, the $4 billion cushion in the event of a second wave seems sufficient and may not be used if the population continues to apply public health measures.

This bright financial picture was taken before the confinement that prompted consumers to build up a food supply. These employees put their health and the health of their loved ones at risk to feed the public for a modest salary. Covid is still out there and unlike other retailers, the products sold are essential. Necessity has a price.

STRATEGIC POSITIONNING

Strict confinement and social distancing measures have enabled some countries to open up their economies without serious consequences. On the other hand, opening businesses earlier in some states in the United States and the outbreak of cases in developing countries (Brazil and India in particular) led to the daily number of cases worldwide to double compared to April. Nevertheless, financial markets no longer seem to be too concerned, attributing a low probability to the return of strict confinement in the spring and even if it was the case, new economic support plans would be put forward by governments financed by the unlimited central bank balance sheets. Zero interest rate policy also accentuates equity markets by discounting future earnings at lower rates. Regardless of any financial market risks, investors have understood central banks' message: we will do whatever it takes for as long as necessary. How to get out of such a promise without collateral damage. There will come a time when monetary support will no longer be needed and central bankers' balance sheets will no longer be as accessible. Investors will no longer be able to rely on the buyer of last resort to sell their unwanted investments. The assets that have benefited the most from bank intervention will be the most subject to correction. It's only when the tide goes out that you discover who has been swimming naked.