MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

MARCH 2021

- Existing home sales rose 6.6% in February, bringing the growth over the past 12 months to 39.2%. Demand for real estate is still high, but supply remains limited. New listings jumped 15.8% in February, but have grown by only 11% over the past year, an insufficient pace that justifies the recent surges in demand across Canada. Over the past 12 months, house prices have increased by an average of 25% in Canada. In Montreal, the annual increase in house prices is 19.5% while in Toronto the average price has increased by 15% over the same period.

The Governor of the Bank of Canada said he sees overheating signs in the Canadian housing market. However, monetary policy is not the best tool to fight this overheating in his view, as the Canadian economy still requires low rates to stimulate activity and inflation. Macro-prudential measures, such as a higher down payment, would be more appropriate, but surely difficult to adopt for a minority government.

- The Biden administration has unveiled a $2.3 trillion infrastructure package that would be financed in part by higher taxes on high-income households and an increase in the corporate tax rate. The White House says the bulk of the plan includes $621 billion for roads, bridges, public transit, electric vehicle charging stations and other transportation infrastructure. Investments are also planned for waterworks, high-speed internet and the development of a clean energy sector. Biden hopes to have his plan passed by the summer.

Republicans agree to some infrastructure investments, but oppose a tax increase. So Biden will have to use budget reconciliation in the Senate again to get his plan passed. Biden will need the support of all Democrats, some of whom also prefer to avoid raising taxes. A second plan to invest nearly $1 trillion in the family will soon be introduced, but will not be as well accepted by Republicans.

- Several purchasing managers indices (PMI) around the world showed an acceleration in manufacturing activity. The index in Europe hit an all-time high while South Korea's is at a 10-year high and Japan is showing the best reading since October 2018. However, the majority of companies surveyed are dealing with input shortages, delayed deleveries, tight inventories and higher production costs.

Currently, problems in the global supply chain are creating shortages in some areas that could prove inflationary. Consumers may change their habits by focusing more on product availability than on price.

RATE TRENDS

- In a virtual speech, Bank of Canada Deputy Governor Toni Gravelle indicated that the bank will end several financial market support programs, such as the provincial and corporate bond purchase programs and the commercial paper purchase program. The Bank has no plans to sell the securities purchased under these programs. With respect to the federal securities purchase program, the Bank has indicated that it is on par with other countries in terms of relative weight to the economy (% GDP), but is far superior to peers in terms of federal government bonds outstanding (40%). The Bank is therefore setting the table for a reduction in the purchase program at its April meeting. Prior to the pandemic, the Bank held 13% of the outstanding federal debt.

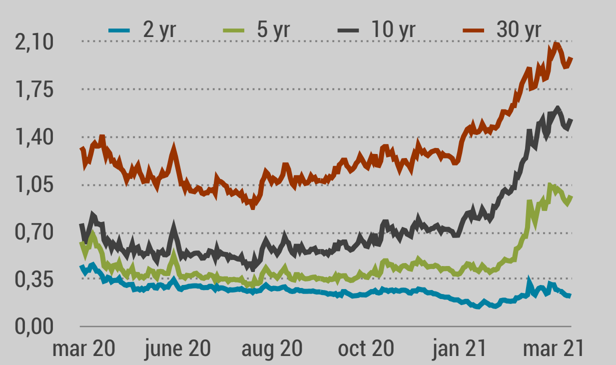
The Bank holds $344 billion in federal bonds out of a total of $862 billion outstanding, or 40%. In fact, it has purchased 95% of the new amount issued by the government over the past year. By comparison, the Bank of Japan began quantitative easing 20 years ago and holds 44.7% of the outstanding debt. The Bank will have no choice but to reduce its pace if it wants to have ammunition in the next crisis. This reduction will come at a time when inflation is worrying investors and causing rates to rise. Will the Bank want to contain the rise in rates by extending the term of its purchases like last time?

BOND RATES

March 31 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	0,09 %	-0,04 %	0,02 %	0,02 %	-0,02 %	-0,04 %
2 years	0,23 %	-0,07 %	0,03 %	0,16 %	0,03 %	0,04 %
5 years	1,00 %	0,12 %	0,60 %	0,94 %	0,21 %	0,58 %
10 years	1,56 %	0,20 %	0,88 %	1,74 %	0,34 %	0,83 %
30 years	1,98 %	0,22 %	0,77 %	2,41 %	0,26 %	0,77 %
RRB 30 years	0,25 %	0,13 %	0,54 %			

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

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	65	100	145	0	0	0	-5	-5	-10
Royal Bank, NVCC	A	95	135	185	0	-5	0	-5	-5	-10
Sun Life, subordinated debt	A	85	125	175	5	-5	5	-5	0	-10
Hydro One	A high	60	85	125	5	10	0	0	0	-5
Enbridge Inc	BBB high	95	145	220	5	0	5	-5	5	-15
Altalink LP	A	60	80	120	5	10	0	0	0	-5
GTAA	A high	65	95	135	5	15	5	10	5	5
Bell Canada	BBB high	85	135	200	10	5	15	5	10	0
Rogers Communications	BBB	100	150	225	25	20	30	20	35	25
Loblaw	BBB high	80	125	190	10	5	10	0	5	-5
Canadian Tire	BBB	95	150	240	5	0	10	-5	0	-15
Province Québec	AA low	33	59	79	3	3	5	2	6	0
Province Ontario	AA low	37	65	81	2	2	6	3	7	0
CMHC	AAA	25	38	---	2	4	3	6		

Source: National Bank Financial

CREDIT MARKET

- New Canadian corporate bond issuance totaled $13.8 billion in March, up $4.3 billion from the previous month and $3 billion more than in March 2020. Year-to-date, bond financings totaled $30.2 billion, up 13% from last year. This is the second most active quarter on record after the second quarter last year. In the U.S., companies with credit ratings below investment grade issued more than US$140 billion in the U.S. market, surpassing the old mark set in the second quarter last year when companies sought to replenish their cash flow to weather the crisis. Issues this year would have been used more to pay dividends or refinance debt.
- The Canadian telecom market will become increasingly concentrated as Rogers Communication reached an agreement to acquire Shaw Communication for $26 billion, including $6 billion of Shaw's debt. The deal has been approved by both boards of directors and the Shaw family. By paying $20 billion for the shares, Rogers Communication will be left with a level of debt equal to 5 times EBITDA. S&P has indicated that it is placing Rogers Communication's credit rating (BBB+) on credit watch with a negative outlook, which could mean a downgrade of up to two notches. As a result, Rogers would maintain an investment grade credit rating. Following the announcement, Rogers' credit spreads widened by 20 to 25 basis points for long-term securities.
- The Province of Quebec tabled its budget and anticipates a current account deficit of $9.2 billion for the 2021-22 fiscal year and $12.3 billion if the contribution to the Generations Fund is added. The current account deficit should drop to $5.3 billion and $1.9 billion over the next two years and finally be eliminated in 2025-26. Including the contribution to the Generations Fund, the budget will be balanced in 2027-28, two years before Ontario. The province's debt ratio is expected to peak this year at 45.5% and then decline to 43.4% of GDP by 2025-26.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	March 2021	2021
Universe	100 %	-1,49 %	-5,04 %
Short Term	42,2 %	0,09 %	-0,59 %
Mid Term	25,4 %	-0,98 %	-4,53 %
Long Term	32,4 %	-3,86 %	-10,69 %
Federal	34,5 %	-0,77 %	-3,72 %
Provincial	37,0 %	-2,42 %	-7,23 %
Corporates	26,4 %	-1,04 %	-3,50 %
RRB		-1,48 %	-7,30 %

Source: ftse.com

Rogers Communication has a proven track record of successfully acquiring businesses on a leveraged basis. This transaction will require CRTC approval to determine the degree of competition in Canada. This major transaction is part of a new wave of mergers and acquisitions that is sweeping the markets this year.

This is the first time since the pandemic began that governments have set a date for returning to balanced budgets. In Ontario's case, it won't be until the end of the decade. The biggest challenge for the provinces in the coming years is to deal with the significant increases in health care costs, both from the pandemic and from an aging population.

STRATEGIC POSITIONNING

Investors are still struggling to understand the Federal Reserve's new monetary policy framework. Fed members have indicated that they do not intend to raise the policy rate until 2024, despite the fact that they expect unemployment to be at full employment next year and inflation to be above 2% in the coming years. The Fed no longer intends to act on assumptions or market expectations, but rather on observable facts. Monetary policy is now reactive rather than preventive in its approach, a major change from the last 30 years. In addition, government support plans have inflated household savings to 9% of GDP in Canada ($200 billion) and 8% in the United States (US$1.7 trillion). This ammunition box will be deployed later this year as health restrictions are lifted, especially for the service industry. This strong pent-up demand will come at a time when global supply chains are disrupted. Increased demand in a tight supply environment creates shortages, the perfect recipe for inflation. Consumers seem to be more concerned about the availability of a product than its price. This change in attitude could well alter consumers' inflation expectations in the longer term if shortages persist for much longer, which the Fed refutes, believing that expectations will remain well anchored.