MONTHLY BOND LETTER

ECONOMIC EVENTS

MARCH 2022

- The consumer price index jumped 1.0% in February in Canada to reach 5.7% year-over year. This is the highest level since August 1991. Higher gasoline prices (6.9%) were a major factor in pushing the index up in the last month, as were higher prices for dairy products (3.7%) to offset higher production costs. Over the past year, price increases above the Bank of Canada's target (2.0%) have been observed in most consumer goods with the exception of clothing and footwear (1.2%). Gasoline (32.3%) and housing (6.7%) were the largest contributors to the increase in inflation over the past year.

Price pressure is expected to increase in March as a result of Ukraine's invasion. In addition to making us pay more at the pump, the conflict will also have implications for food. Russia and Ukraine together account for 25.4% of global wheat exports, while Ukraine's share of global corn exports is 16%. Russia is a major producer of raw materials, which will exacerbate the supply shock and increase price pressure in some industries.

- The U.S. labor market continues to show signs of strength. In the first quarter, the U.S. economy added 1,685,000 jobs despite the Omicron wave that disrupted economic activity in several industries. New weekly claims for unemployment benefits also hit a low not seen since September 1969 at 187,000 during March. Demand for personnel remains strong as evidenced by the 11.3 million job openings in February. In fact, there are now 1.8 job openings for every unemployed person in the U.S., an all-time high that has continued to rise.

Job market strength is currently fuelling consumer confidence. However, inflation is undermining the outlook for the next 6 months. Wages have risen by 5.6% in the past year, but not enough to keep up with the cost of living, which has jumped by 7.9% in the past year. This loss of purchasing power does not seem to be push people to get back into the labor market. Employment is still 1.6 million below its February 2020 level, but the household savings chest is still full.

- According to the president of the European Central Bank, the war in Ukraine will cause a supply shock that will raise inflation and reduce confidence and growth in the euro area. The risk of stagflation is growing as consumer confidence fell to its lowest level since May 2020, while inflation in Germany jumped 2.5% in one month in March and 7.3% in the past year. Rising energy and food prices are being felt across Europe. In Spain, inflation reached 9.8% following a 3.0% jump in prices in March.

Stagflation will cause headaches for central bankers, especially in Europe. By trying to fight inflation with a tighter monetary policy, we risk accelerating the decline that comes from a supply shock in the first place. Russia is also threatening to cut energy supplies to the old continent if payment is not made in rubles. The pressure on prices could therefore increase further.

RATE TRENDS

- After the Bank of Canada in early March, it was the Federal Reserve's turn to raise its policy rate by 0.25% for the first time since 2018. The Fed also mentioned that it will be appropriate to start reducing its balance sheet at a future meeting. The war in Ukraine is likely to cause additional pressure on prices and weigh on economic activity, the Fed said. Inflation forecasts this year have been raised from 2.7% to 4.1% while GDP is expected to grow by 2.8%, a marked slowdown from the December forecast of 4.0%. Faced with inflationary pressures not seen in 40 years, Fed members also revised their rate forecasts, now anticipating a total of 7 hikes in 2022 to close the year at 1.875%. Monetary tightening is expected to continue in 2023 when the policy rate is expected to reach 2.75% according to the Fed's expectations.

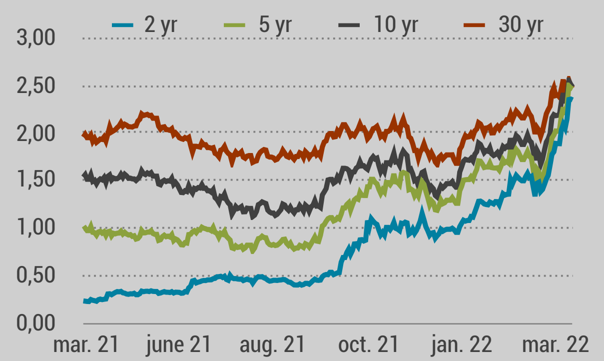
Jerome Powell is confident that he will be able to tighten monetary policy without causing a recession as was the case in 1965, 1984 and 1994. However, the 1994 monetary tightening was accompanied by financial market turbulence, while more recent tightenings have led to financial bubble bursts. The U.S. economy is much more indebted today than it used to be, and stock market capitalization as a share of GDP is also higher. All in all, the Fed's intention to orchestrate a soft landing for the economy is honorable, but increasingly difficult to accomplish.

BOND RATES

Mar. 31, 2022	Canada	Monthly Change	Change 2022	U.S.	Monthly Change	Change 2022
Key Interest Rate	0,50 %	0,25 %	0,25 %	0,50 %	0,25 %	0,25 %
3 months	0,75 %	0,17 %	0,57 %	0,48 %	0,19 %	0,45 %
2 years	2,29 %	0,86 %	1,34 %	2,33 %	0,90 %	1,60 %
5 years	2,41 %	0,79 %	1,15 %	2,46 %	0,74 %	1,20 %
10 years	2,41 %	0,59 %	0,98 %	2,34 %	0,51 %	0,83 %
30 years	2,38 %	0,29 %	0,71 %	2,45 %	0,29 %	0,54 %
RRB 30 years	0,58 %	0,20 %	0,70 %			

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	120	150	185	5	35	5	35	0	30
Royal Bank, NVCC	A	165	210	250	15	55	20	60	15	50
Sun Life, subordinated debt	A	150	195	235	15	50	20	55	10	45
Hydro One	A high	95	130	150	5	30	5	30	-5	15
Enbridge Inc	BBB high	140	185	255	-10	30	-15	30	-10	25
Altalink LP	A	95	130	150	5	30	5	30	-5	15
GTAA	A high	95	125	145	10	25	5	25	-5	15
Bell Canada	BBB high	130	175	230	-10	30	-10	30	-10	25
Rogers Communications	BBB high	155	205	275	-10	25	-5	30	5	40
Loblaw	BBB high	125	170	210	-5	35	-5	35	-5	20
Canadian Tire	BBB	135	185	260	0	40	0	40	0	30
Province Québec	AA low	43	65	86	2	10	-1	9	-1	12
Province Ontario	AA low	46	67	88	1	9	-2	6	-2	10
CMHC	AAA	38	50	---	3	7	2	9		

Source: National Bank Financial

CREDIT MARKET

- New Canadian corporate bond issuance reached a new all-time high of $28.7 billion in March, up $23.1 billion from the previous month and $14.9 billion higher than March 2021. Year-to-date, bond financings totaled $44.2 billion, 46% more than at this time last year. The banking sector was very active during the month with 17 transactions totaling $22.9 billion, an all-time record. Despite this historic wave of new issues hitting the Canadian market during the month, corporate spreads remained largely unchanged at 1.44%, up 0.01% in the month. Investor appetite for risky assets remains strong.

- Quebec's finance minister tabled his budget in which he forecast a $6.1 billion deficit for the fiscal year ending March 31st, including the $3.5 billion transfer to the Generations Fund. The shortfall should reach $6.5 billion next year, still after the $3.4 billion payment to the Generations Fund. Excluding these payments, Quebec expects to return to a balanced budget in 2023-24, two years earlier than expected. The government is also making provisions for economic risks that total $2.5 billion in 2022-23 and $1.5 billion for subsequent years. The flagship measure of this budget, the $500 cheque offered to nearly 6.4 million Quebecers with a declared income of $100,000 or less, cannot be ignored. This measure, at a cost of $3.2 billion, will be used to help households with the rising cost of living.

- The CRTC approved the transaction that allows Rogers Communications to acquire 16 cable television services in Western Canada, a national satellite television service, and other broadcasting services. According to the CRTC, this transaction is in the public interest because it would advance the objectives of the Broadcasting Act, including encouraging the development of programming that reflects Canadian views and values. However, this decision applies only to the broadcast portion of the $26 billion merger between the two companies. Rogers' acquisition of Shaw's home phone, wireless and Internet services is not part of this approval and remains under review by the Competition Bureau.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Mar. 2022	2022
Universe	100 %	-2,99 %	-6,97 %
Short Term	41,0 %	-1,89 %	-2,98 %
Mid Term	27,1 %	-3,88 %	-6,83 %
Long Term	31,8 %	-3,63 %	-11,73 %
Federal	35,1 %	-2,99 %	-5,55 %
Provincial	36,0 %	-3,25 %	-8,57 %
Corporates	26,8 %	-2,60 %	-6,45 %
RRB		-2,54 %	-9,33 %

Source: ftse.com

We add our voices to those who are critical of the scope of this measure. It would have been better to offer more to families in need instead of setting a high income threshold. For households near this threshold, this cheque is a gift that will be spent while shortages are still rampant, fuelling inflation once again. In this case, the cure for rising prices only feeds the disease.

The Competition Bureau is where it's at. The federal government has made its position clear. This transaction would go against Ottawa's commitment to preserve competition in the wireless sector. The Trudeau government was committed to reducing Canadians' phone bills. Although the Bureau is independent, it is quite possible that the federal government's wishes will be fulfilled.

STRATEGIC POSITIONNING

Inflationary pressures are building and central bankers need to get tougher and more aggressive in adjusting their policy to fix the monetary policy mistake created last year. Bond yields have risen quickly to reflect this fierce battle with inflation, especially the 2-year bond yield, which jumped 134 bps in Canada and 160 bps in the U.S. during the quarter. The 10-year yield followed the same trajectory, but the magnitude was smaller, so that the spread between the 10-year and the 2-year ended the quarter at 12 bps in Canada and 1 bp in the United States. An inversion of the yield curve is an indicator of recent recessions and a message that investors are sending to central bankers. Rising short-term rates reflect the backlog of central bank inactions in 2021, while a flattening curve illustrates the risk that this rapid adjustment will create an economic or financial shock. On the other hand, the recession signal of an inverted curve has weakened over time as central bank asset purchase programs have kept long-term rates artificially low. Several other indicators should also point in the direction of a recession, which is not the case at the moment. Credit spreads have not widened excessively, the real policy rate is still strongly negative and the stock market is holding relatively steady. In addition, households still have plenty of savings to partially absorb the rising cost of living.