MONTHLY BOND LETTER

AlphaFixe Capital

January 2017

ECONOMIC EVENTS

- Canadian GDP increased by 0.4 % in November, a fifth consecutive monthly gain in the last 6 months. More than 60 % of this growth is attributable to mining, oil and gas extraction and manufacturing industries. Good-producing industries rose by 0.9 % and 0.2 % for the service industry, the ninth consecutive monthly expansion for the latter. The construction industry recorded a second increase (1.1 %) in the past 3 months due to residential renovations. However, this industry has declined 19 times in the last 24 months.

The new mortgage rules are likely to deflate the real estate prices in some Canadian cities (Vancouver and Toronto). However, as long as there is a strong demographic trend, low rates and a steady job market, the construction industry is expected to avoid a collapse as expected by many.

- U.S. economic growth rate decelerated at the end of the year, from 3.5 % in annualized terms in the third quarter to 1.9 % during the fourth. This slowdown is mainly due to a contraction in international trade, subtracting 1.7 % to the growth rate. The strength of the U.S. dollar has propelled imports (8.3 %) and weakened exports (-4.3 %). Household consumption expenditures increased by 2.5 % compared to 3.0 % in the previous quarter.

International trade could continue to undermine growth in 2017. Trump's tax policy should stimulate domestic demand and imports, while the strength of the U.S. dollar will hurt exporters. This deterioration in trade balance is likely to fuel the rhetoric favoring import tariffs.

- The Chinese economy grew at an annualized rate of 6.8 % during the fourth quarter, bringing 2016 growth to 6.7 %, right in the middle of the 6.5-7.0 % target rate. Government spending and credit expansion have powered the economy in the last quarter. China's debt to GDP went from 254 % in 2015 to 277 % last year.

Like Japan, China can reach higher debt ratios because it has a savings surplus resulting from a lack of a social safety net. Previously, this savings was exported by buying U.S. bonds. Now that international trade has plateaued, these purchases have slowed down.

RATE TRENDS

- The Bank of Canada kept its key rate at 0.5 % in January. The Bank argues that some indicators have shown a significant margin of unused resources in labor market while the strengthening Canadian dollar undermines the competitiveness of our exports. Since Donald Trump's election, the uncertainty surrounding NAFTA has been a risk factor for exporters and M. Poloz has indicated that he does not rule out a rate cut if it were necessary.

What is paradoxical is that the Bank also expects the economy to reach its full potential by mid-2018. This leaves only 18 months with a modest growth of 2.1% per year to go from significant excess capacity to full employment. A high step in a short period of time!

- The Federal Reserve has also voted for the status quo at its last meeting. In their statement, the Fed drew a relatively positive picture of the economy with reference to strong employment gains and improving the consumer confidence index. The anticipated tax policy changes have been left out of the message, even though they will influence the future economic situation,.

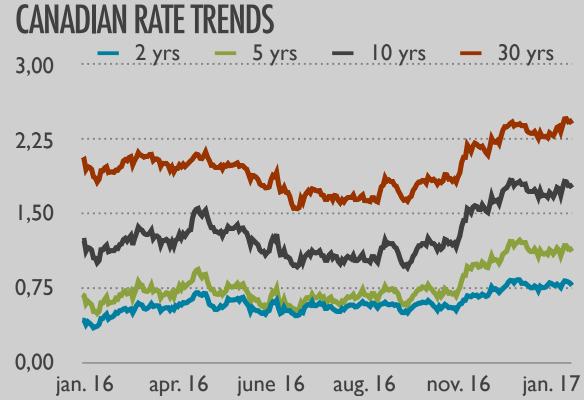
Before compromising themselves, the Fed wants to analyze the extent of tax measures, which should be announced. If tax cuts favour the rich, their economic impact will be lower because they save a higher proportion of their disposable income.

BOND RATES

Jan. 31, 2017	Canada	Monthly Change	Change 2017	United States	Monthly Change	Change 2017
Key Interest Rate	0,50 %	0,00 %	0,00 %	0,75 %	0,00 %	0,00 %
3 months	0,46 %	0,01 %	0,01 %	0,51 %	0,02 %	0,02 %
2 years	0,77 %	0,02 %	0,02 %	1,20 %	0,02 %	0,02 %
5 years	1,12 %	0,00 %	0,00 %	1,91 %	-0,01 %	-0,01 %
10 years	1,76 %	0,04 %	0,04 %	2,45 %	0,01 %	0,01 %
30 years	2,41 %	0,10 %	0,10 %	3,06 %	-0,00 %	-0,00 %
RRB 30 years	0,64 %	0,15 %	0,15 %			

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		Spread			Change					
						5 yrs		10 yrs		30 yrs	
	DBRS	S&P	5 yrs	10 yrs	30 yrs	month	2017	month	2017	month	2017
Royal Bank, deposit notes	AA	AA-	85	100	145	-10	-10	-10	-10	-10	-10
Manulife, Senior debt	A high	A+	105	130	180	-10	-10	-5	-5	-5	-5
Fortis Inc.	BBB high	BBB+	110	155	210	-10	-10	-10	-10	-15	-15
Hydro One	A high	A	75	100	140	-5	-5	-5	-5	-10	-10
Enbridge Inc	BBB high	BBB+	125	170	225	-5	-5	-10	-10	-15	-15
Encana Corp	BBB low	BBB	190	255	320	-25	-25	-30	-30	-25	-25
GTAA	---	A+	70	90	125	0	0	-5	-5	-10	-10
Bell Canada	BBB high	BBB+	110	155	210	-5	-5	-10	-10	-15	-15
Rogers Communications	BBB	BBB+	110	155	210	-5	-5	-10	-10	-25	-25
Loblaw	BBB	BBB	110	155	210	-10	-10	-15	-15	-15	-15
Canadian Tire	BBB high	BBB+	115	160	220	-10	-10	-15	-15	-10	-10
Province of Québec	A high	A+	56	78	93	1	1	0	0	1	1
Province of Ontario	AA low	A+	57	78	90	1	1	-1	-1	1	1
CMHC	AAA	AAA	40	48	---	2	2	0	0		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance reached $ 7.7 billion in January, a $ 3.1 billion increase from the previous month and $ 2.6 billion more than the same month last year. In January 2016, new issues were disrupted by the fall in oil prices (-9.2 %) and stock indices around the world, notably China. Enthusiasm for risky assets persisted last month while corporate bond spreads narrowed by about 6 bps to close the month at 129 bps according to the FTSE TMX Universe Index. Investors' enthusiasm is also illustrated by the demand surrounding new issues of Pembina Pipeline maturing in 2024 and 2047. This BBB rated issuer would not have been accepted this positively back in January 2016.

- President Trump has signed a new presidential order to reopen the Keystone XL TransCanada Pipeline construction project. At the same time, the White House has also silenced the Environmental Protection Agency, with a media blackout including social media. The Keystone project, estimated at nearly $ 8 billion US, involves the construction of a 1,900 km pipeline that will link Alberta oil sands to Nebraska, where it will be connected to the existing grid and routed to the Gulf of Mexico. However, M. Trump also indicated that the project terms could be renegotiated, favouring American steel producers.

- AltaGas announced the acquisition of WGL Holding American for $ 8.4 billion, including $ 2.4 billion in debt. Located in the District of Columbia, Virginia and Maryland, WGL produces 75 % of its earnings before tax, interest and depreciation (EBITDA) from its regulated operations in natural gas distribution. As a result, the merged entity will drift about 55 % of its EBITDA from a regulatory framework, up from 35 % previously. AltaGas will finance the acquisition by issuing shares a total of $ 2.8 billion in shares, $ 800 million in preferred shares and the rest through debt or asset sale ($ 2.4 billion). DBRS has placed the credit rating (BBB) under review, while S&P confirmed its (BBB) rating while maintaining its negative outlook.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Jan. 2017	2017
Universe	100 %	-0,12 %	-0,12 %
Short Term	45,2 %	0,21 %	0,21 %
Mid Term	23,7 %	0,19 %	0,19 %
Long Term	31,1 %	-0,83 %	-0,83 %
Federal	36,9 %	-0,14 %	-0,14 %
Provincial	33,6 %	-0,52 %	-0,52 %
Corporates	27,6 %	0,41 %	0,41 %
RRB		-1,78 %	-1,78 %

Source: ftse.com

This is good economic news for Alberta, who seeks opportunities for its oil abundance. This project may be delayed by its opponents, but they now have less democratic allies in Washington. In reality, Trump administration does not even recognize global warming as an "alternative fact."

From a creditor's point of view, we welcome the geographical diversification of this acquisition as well as the enhanced operations within a regulated framework. What asset will be sold to reduce the use of debt in this transaction remains to be seen.

STRATEGIC POSITIONNING

Economic and financial enthusiasm arising from Donald Trump's election weakened throughout the month of January. Election campaign promises will now have to become reality. Seeking to quickly dissociate itself from Obama's legacy and show that he is a president of his word, President Trump has multiplied presidential orders that have mainly targeted border security and immigration. However, he has remained shy on his fiscal stimulus commitment since being sworn-in. As presented on the campaign trail, his tax cuts would benefit the rich. According to the Tax Policy Center, disposable income for the top 1 % income earners would increase by 13.5 % while the average earner would get a 1.8 % boost. If these tax measures are not changed, their economic impact will be lower, as the wealthiest save a larger portion of an additional dollar. On the other hand, the corporate tax rate cut (from 35 % to 15 %) and promised deregulation could help investments especially for small and medium size companies. Given that the economy is already close to full employment, the coming stimulus is more likely to increase wages than to create jobs. Restricting immigration will also have a rising effect on wages and therefore inflation.