MONTHLY BOND LETTER

ECONOMIC EVENTS

JANUARY 2023

- Following a 69,200 job gain in December, the Canadian economy added 150,000 new jobs in January. With the exception of the pandemic period, this is the highest monthly job creation in history. The jobs were mostly full-time (121,000), which further amplifies the robustness of the labour market. Notable gains were recorded in wholesale and retail trade (+58,700), health care (+40,000) and education (+18,400). Even construction added 15,800 jobs, bringing the increase in that industry to 114,000 over the past year. Canada's high immigration rate explains this need to build housing to accommodate newcomers. Quebec is doing well with a gain of 47,000 jobs and the lowest unemployment rate of all provinces at 3.9%.

Job creation in industries more severely affected by the monetary tightening such as construction and retail trade is encouraging. The economy is proving to be much more resilient than some had anticipated. Now that Canadians have better visibility on the direction of rates since the Bank of Canada announced a pause in rates, some may re-evaluate their budgets and move away from the precautionary savings they have been exercising, especially if inflation decelerates.

- The ISM index of activity in the service industries in the United States rebounded in January to 55.2 from 49.2 the previous month. Recall that the 50 threshold delineates expansion (>50) from contraction (<50). Even looking at the details, it's hard not to get excited. Growth in business activity and production (60.4) accelerated while new orders also jumped 15 points from contraction mode (45.2) to strong expansion (60.4). Employment improved slightly (50 vs. 49.4 in December) and reflects the difficulty firms are having in filling job vacancies. Input price pressures have also eased (67.8), but still remain high.

Several forecasters have formed their view of a recession this year on the contraction seen in manufacturing activity and services. Both ISM leading indicators dipped into contractionary territory at the end of 2022. However, the services industry has recovered very quickly with the robust labor market adding 517,000 jobs in January. Adding the savings accumulated during the pandemic, households are more willing to continue spending.

- Even with much of the population in lockdown, China's economy stalled in the fourth quarter, bringing its annual change to 2.9%. Industrial production slowed in December to a 1.3% year-over-year growth. In contrast, retail sales recovered from a 5.9% annual decline in November to a more modest 1.8% decline in December. Food and vehicle sales contributed strongly in December. Excluding 2020, this was the economy's worst annual performance since 1976.

The outlook for 2023 is brighter. The zero-tolerance policy on Covid has been lifted (perhaps too quickly), which should support household consumption and manufacturing. The People's Bank of China has also reduced the reserve ratio for banks, while the government has introduced stimulus measures, particularly in the real estate sector where some debt constraints have been relaxed.

RATE TRENDS

- Monetary tightening continued as the Bank of Canada raised its policy rate by 0.25% to 4.50% in January and the Fed raised its rate by the same amount on February 1 to 4.75%. Economies are still operating with excess demand and have proven to be more resilient than expected, especially in the labor market. Unemployment rates are near historic lows and businesses continue to have difficulty recruiting staff. However, the Bank of Canada recognizes the lagged effect of the increases on economic activity and believes that a pause is warranted to study the full impact of its tightening so far. Such a pause is not yet in the Fed's plans as it believes there is still work to be done to keep inflation in check. At current levels, the policy rate is probably in restrictive territory.

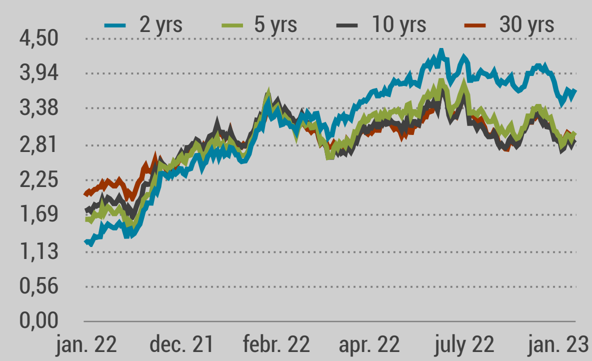
In Europe, the Bank of England and the ECB also raised their key rates, but more aggressively, by 0.50%. The majority of central banks are therefore approaching a pause in the tightening of their monetary policy. This is leading investors to anticipate the next step, which would be a rate cut, as this is what they have been used to seeing in the last few decades. Although inflation will gradually ease in the coming months, if the banks want to ensure that it returns to 2% on a sustained basis, they will have to stand up to investors and maintain a restrictive rate to avoid reliving a second wave of inflation like in the 1970s, unless a severe recession changes their plan.

BOND RATES

Jan. 31, 2023		Monthly Change	Change 2023		Monthly Change	Change 2023
Key Interest Rate	4,50 %	0,25 %	4,25 %	4,50 %	0,00 %	4,25 %
3 months	4,42 %	0,16 %	0,16 %	4,64 %	0,30 %	0,30 %
2 years	3,75 %	-0,30 %	-0,30 %	4,20 %	-0,22 %	-0,22 %
5 years	3,03 %	-0,38 %	-0,38 %	3,62 %	-0,39 %	-0,39 %
10 years	2,92 %	-0,38 %	-0,38 %	3,51 %	-0,37 %	-0,37 %
30 years	2,98 %	-0,30 %	-0,30 %	3,63 %	-0,33 %	-0,33 %
RRB 30 years	1,07 %	-0,13 %	-0,13 %			

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

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	135	170	200	-30	-30	-30	-30	-30	-30
Royal Bank, NVCC	A	185	230	270	-40	-40	-40	-40	-40	-40
Sun Life, subordinated debt	A	165	205	235	-35	-35	-35	-35	-35	-35
Hydro One	A high	95	125	145	-15	-15	-15	-15	-15	-15
Enbridge Inc	BBB high	150	195	240	-25	-25	-20	-20	-20	-20
Altalink LP	A	95	125	145	-10	-10	-10	-10	-10	-10
GTAA	A high	95	120	140	-10	-10	-15	-15	-15	-15
Bell Canada	BBB high	130	170	205	-30	-30	-25	-25	-20	-20
Rogers Communications	BBB	155	205	250	-25	-25	-20	-20	-20	-20
Loblaw	BBB high	125	165	190	-25	-25	-20	-20	-20	-20
Canadian Tire	BBB	145	190	235	-25	-25	-20	-20	-20	-20
Province Québec	AA low	37	69	92	-9	-9	-3	-3	-2	-2
Province Ontario	AA low	39	71	93	-9	-9	-3	-3	-2	-2
CMHC	AAA	26	41	---	-10	-10	-5	-5		

Source: National Bank Financial

CREDIT MARKET

- New Canadian corporate bond issuance reached $9.9 billion in January, up $1.8 billion from the previous month and $100 million more than in January 2022. Other than 2013 ($9.917 billion), this is the best start to the year for new corporate issuance. Canadian banks again took the lead in financing with $6.5 billion across 4 different issues. Also of note was the $750 million long bond financing for Hydro One in three equal tranches of $250 million each. The proceeds of this financing will be used to finance or refinance eligible new green and social projects that meet the eligibility criteria outlined in their new framework filed on January 12.

- Metro Grocer unveiled its financial results for the first quarter of 2023 (12-week period ending December 17, 2022). Sales jumped 8.2% compared to the first quarter of 2022, to $4.67 billion, compared to 7.5% for same-store sales. This increase was primarily driven by food inflation as the food basket increased by 10% over the review period. As a result, transaction volume declined in the first quarter, reflecting the loss of household purchasing power. Net income increased by 11.3% to $231.1 million.

- Alberta's credit rating was upgraded by Moody's. In raising the rating to Aa2 from Aa3, Moody's believes that "the credit risks facing Alberta have diminished and the improvement in risk profile could be sustained over the next 3-4 years. While Alberta continues to face revenue volatility from oil prices, sustained high oil prices above pre-pandemic levels have changed the province's fiscal trajectory to ongoing surpluses." For the current fiscal year, oil royalties are expected to account for almost 30% of the province's revenues. However, Alberta's budget forecast calls for a reduction in oil dependency to 21% in the coming years.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Jan. 2023	2023
Universe	100 %	3,09 %	3,09 %
Short Term	42,4 %	1,36 %	1,36 %
Mid Term	28,0 %	3,29 %	3,29 %
Long Term	29,6 %	5,45 %	5,45 %
Federal	37,4 %	2,48 %	2,48 %
Provincial	34,5 %	3,81 %	3,81 %
Corporates	26,1 %	2,98 %	2,98 %
RRB		1,72 %	1,72 %

Source: ftse.com

While the results may put a smile on the face of company shareholders and creditors, they will certainly have consumers grinding their teeth since food price inflation has the potential to push a balanced household budget into the red! In addition to passing on almost all of the price increases to its consumers, the profit margins are higher.

The province has benefited from rising oil prices since the invasion of Ukraine to rebalance its public finances. However, we can't forget the market war between the United States and Saudi Arabia in 2015, which led to a drop in oil prices and the province's revenues. The revenue diversification plan will need to be executed without delay.

STRATEGIC POSITIONNING

At the beginning of the year, there were almost 3 certainties in life: death, taxes and a recession in 2023. A month later, the third point is less certain. Despite headlines about significant layoffs in the U.S. technology sector, the job market remains strong. The Canadian and U.S. economies added 150,000 and 517,000 new jobs respectively in January, which should boost incomes, spending and contribute to GDP. U.S. job vacancies also increased in December and new jobless claims are near historic lows. For central banks, the imbalance in the labor market makes the 2% inflation target more difficult to achieve. The drop in the annual inflation rate to 3-4% will be achieved quickly, only by the notion of variations that compare with last year's high prices. The killer question: will they get to the 2% target without creating turmoil in the labour market or financial markets? Based on the prevailing rate outlook and the improvement in financial markets at the beginning of the year, investors do not seem to be buying into the recession scenario, as complacency is back. The soft landing of the economy desired by the Fed does not appear to be happening. The plane has approached the runway, but the wheels have not yet touched the tarmac before the plane has taken off again. Without a slowdown, the next move by the Bank of Canada could be a hike.