MONTHLY BOND LETTER

AlphaFixe Capital

May 2017

ECONOMIC EVENTS

- The Canadian economy grew at an annualized rate of 3.7% in the first quarter, 1 % higher than the previous quarter. This improvement is the result of an increase in consumer spending as well as growth in residential and non-residential investments. Companies have also increased their inventory, which contributed to growth. On the other hand, international trade was detrimental, while imports grew sharply, exports declined slightly. However, some of these imports could also be accounted for in the inventory rise, thus acting as a counterweight.

- The tax plan filed by the Trump administration in May points towards a reduction in personal and corporate tax rates, as well as an increase in military and infrastructure spending. These measures would be financed by cutting social safety net programs by $ 3,600 billion over 10 years, thus forcing the beneficiaries of these programs back to work. In the plan, adding new workers would result in a real growth rate of 3%. Thus, the budget balance would rise from a deficit of 2.2% of GDP in 2017 to a small surplus by 2027, therefore reducing the debt to GDP from 77% to 60% in 10 years.

- Moody's has lowered China's credit rating from Aa3 to A1, the first decline since the Tiananmen Square protests of 1989. Moody's is concerned that the country's fiscal situation may deteriorate over the next few years based on the country's increasing debt and the economic slowdown. Although reforms are expected to transform the economy, they will not be able to curb indebtedness according to the agency.

RATE TRENDS

- The Bank of Canada maintained its policy rate in May, while indicating that the economy is strengthening both globally and domestically. They view the energy industry adjustment to lower prices as largely complete, implying that corporate investments could eventually contribute to growth. However, excess capacity in the economy should maintain inflation below the 2% target.

- The Federal Reserve has clarified its balance sheet reduction plan according to May's meeting minutes. Beginning later this year if the economy evolves as currently expected, the Fed would set a monthly amount of bonds that will be allowed to mature without being reinvested. This amount would initially be set low and then increased every three months.

Some factors could delay growth in the second quarter include: the rainy weather in April, Quebec's floods in May, the new mortgage rules in Ontario that could slow down residential construction, as well as the shutdown of oil production at Syncrude in the spring. Nevertheless, the economy is improving and the potential gap is narrowing.

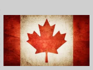
Trump believes that they can achieve a growth rate of 3% by forcing the less fortunate to return into the workforce. However, nearly 75% of Medicaid beneficiaries are already working. In addition, this tax plan favors the rich who save more. The Congressional Budget Office disagrees, estimating that the deficit will widen under this plan.

The outstanding amount of credit instruments in China is close to 260% of GDP, but foreign debt is only 12% of GDP. As a result, China's debt is largely financed by internal savings, thus reducing the risk. After the Communist Party's Congress in the fall, President Xi will have more power to set up the necessary economic reforms.

Given that mortgage and policy measures are expected to reduce real estate risk, the Bank's reluctance to higher rates is mostly based on foreign trade and NAFTA renegotiations this summer. If the impact is negligible, the Bank's speech will begin to harshen.

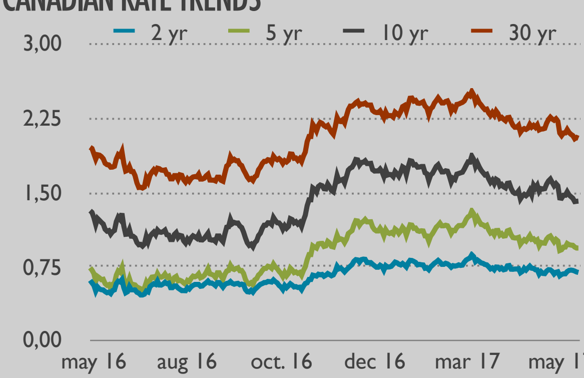
While almost 70% of Treasury bonds on the Fed's balance sheet will expire over the next five years, Trump is also preparing to increase debt. At these current rates, which investor will take over for the Fed as the country's biggest lender?

BOND RATES

May 31 2017		Monthly Change	Change 2016		Monthly Change	Change 2016
Key Interest Rate	0,50 %	0,00 %	0,00 %	1,00 %	0,00 %	0,25 %
3 months	0,54 %	0,01 %	0,08 %	0,97 %	0,18 %	0,47 %
2 years	0,69 %	-0,03 %	-0,05 %	1,28 %	0,02 %	0,09 %
5 years	0,94 %	-0,07 %	-0,17 %	1,75 %	-0,06 %	-0,18 %
10 years	1,42 %	-0,13 %	-0,31 %	2,20 %	-0,08 %	-0,24 %
30 years	2,05 %	-0,11 %	-0,26 %	2,86 %	-0,09 %	-0,20 %
RRB 30 years	0,48 %	-0,07 %	-0,01 %			

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	Credit rating S&P	Spread 5 yrs	Spread 10 yrs	Spread 30 yrs	Change 5 yrs month	Change 5 yrs 2017	Change 10 yrs month	Change 10 yrs 2017	Change 30 yrs month	Change 30 yrs 2017
Royal Bank, deposit notes	AA	AA-	90	110	150	10	-5	10	0	5	-5
Manulife, Senior debt	A high	A+	110	140	185	10	-5	10	5	5	0
Fortis Inc.	BBB high	BBB+	105	150	190	10	-15	15	-15	15	-35
Hydro One	A high	A	70	95	140	0	-10	5	-10	15	-10
Enbridge Inc	BBB high	BBB+	125	175	225	5	-5	15	-5	10	-15
Encana Corp	BBB low	BBB	165	220	295	0	-50	0	-65	5	-50
GTAA	---	A+	60	80	110	0	-10	0	-15	-5	-25
Bell Canada	BBB high	BBB+	105	155	215	5	-10	10	-10	15	-10
Rogers Communications	BBB	BBB+	105	150	215	5	-10	10	-15	15	-20
Loblaw	BBB	BBB	100	150	205	0	-20	5	-20	10	-20
Canadian Tire	BBB high	BBB+	105	155	210	0	-20	5	-20	0	-20
Province of Québec	A high	A+	52	73	85	0	-3	-1	-5	-3	-7
Province of Ontario	AA low	A+	53	75	85	-1	-3	-1	-4	-2	-4
CMHC	AAA	AAA	41	51	---	5	3	3	3		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance reached a record high of $ 13.9 billion in May, up $ 7.5 billion from the previous month and $ 7.3 billion more than May 2016. Since the beginning of the year, corporate issuance reached $ 43.8 billion, 41.2 % more than at the same time last year. US companies continued to tap the Canadian market, as "Maple" issues totaled $ 5.5 billion, or 40 % of May's total. Pepsi Anheuser-Bush, UPS and AT&T issued in Canada last month following US banks in the April. "Maple" bonds represent more than 15 % of new issues this year compared to an average of 5 % in recent years.

- S&P downgraded Alberta's credit rating by 2 notches bringing it to A + with a stable outlook. The negative impact of declining oil prices continues and the agency is criticizing the government's budgetary approach whose time frame does not favor debt reduction. For the current fiscal year, the province expects a deficit of $ 10.3 billion and $ 9.7 billion the following year. After this downgrade, S&P's rating is 3 notches lower than Moody's (Aa1) and DBRS (AA high). As a result, North West Redwater Partnership's credit rating was also downgraded from A- to BBB+. This company is a partnership formed by the Government of Alberta and Canadian Natural Resources (CNR) to operate a bitumen and low diesel sulfur refinery.

- Moody's downgraded the credit rating of the 6 major Canadian banks by one notch. The agency is increasingly concerned about the impact of high household indebtedness coupled with rising house prices. As a result, households and major Canadian banks are becoming more vulnerable to downside risks facing the Canadian economy, thereby weakening the quality of assets on bank's balance sheet. Moody's also maintained a negative outlook for the banks' credit ratings, reflecting the uncertainty surrounding the new bank recapitalization program in case of non-viability. Clarifications regarding this regime should be published later this year.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	May 2017	2016
Universe	100 %	0,86 %	3,57 %
Short Term	43,6 %	0,17 %	1,24 %
Mid Term	23,0 %	0,79 %	3,70 %
Long Term	33,4 %	1,83 %	6,77 %
Federal	36,7 %	0,67 %	2,33 %
Provincial	34,3 %	1,35 %	4,62 %
Corporates	27,0 %	0,46 %	3,86 %
RRB		1,16 %	1,97 %

Source: ftse.com

S&P has been tough on the province compared to the other rating agencies, with a 3 notch difference. The province has fiscal flexibility mainly through sales tax. In addition, the debt objective is to invest in infrastructure and thus improve the productivity of the province and not just to keep the lights on.

The household debt situation and the overheating real estate market are not new elements in the Canadian economy. The trigger element appears to be the debacle of Home Capital Trust. Since the financial crisis of 2008, the agencies are more severe, no longer wanting to be targeted as passive and reactionary.

STRATEGIC POSITIONNING

President Trump's obstruction of justice in the Comey case, as well as rumors regarding collusion with Moscow during the 2016 election campaign, undermined support for the President's economic plan. This requestioning is the main reason behind declining rates since the end of the quarter. Notwithstanding Washington's possible fiscal support, the economy is doing well as the labor market is close to full employment, thus supporting consumer spending and the housing market. With this in mind, the Federal Reserve seems justified to tightened its monetary policy two more times in 2017 and move away from a policy rate applicable in times of crisis. If fiscal support is added, inflationary pressures will intensify, which will warrant a more restrictive approach to the Fed's monetary policy. The Canadian situation is different. The Bank of Canada can't reduce its key rate to weaken the loonie and help exporters without stirring up the red hot real estate market. For the time being, the status quo is required in Canada, but the situation will be challenging towards the end of the year following two rate increases by the Fed. At that time, the policy rate differential between the two countries would be 1% favoring the United States, which has rarely occurred in the last two decades.