MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

APRIL 2023

- Canada's annual inflation rate fell from 5.2% in February to 4.3% in March. Prices still rose 0.5% in March, indicating that inflationary pressures remain present and persistent. Food was slightly more expensive in March (+0.2%) despite the decline in fruit and vegetable prices last month. Energy was also up in March (+0.7%) due to gasoline prices. Excluding these volatile items, the core index is up 0.6% month-over-month and 4.5% year-over-year. March is also known for spring break and southern travel. For these travelers, the bill soared 36.7% in one month. The cost of mortgage interest is up again by 2% in March and 26.4% in the past year. This is the most important factor in the annual rate of inflation.

Finally, the policy rate is above inflation. The decline in the annual inflation rate does not seem to be too rocky for the next few months. It is from July onwards, when the base effect will fade, that the path will become more chaotic. Without gains in worker productivity, wage increases (4 to 5%) seem incompatible with a return to 2% inflation. To achieve this, the Canadian labour market will have to weaken or immigration will have to increase the supply of workers and dampen wage growth.

- U.S. GDP grew at an annualized quarterly rate of 1.1% in the first quarter compared to 2.6% in the previous quarter. However, this deceleration is misleading and is largely due to the decline in business inventories, which subtracted 2.3% from the economy's growth. Excluding changes in inventories, final sales rose 3.4% compared to 1.1% in the fourth quarter. Consumers were on board with a 3.7% increase in spending, particularly on durable goods (+16.9%) such as cars. Residential real estate continues to act as a drag on growth (-4.2%) while international trade and government spending contributed.

The economy started the year strong, supported by higher social security payments and less severe winter weather. However, the pace of growth weakened as the quarter progressed. It is encouraging to see a pickup in activity in some interest rate sensitive industries such as real estate and vehicle sales. We will see in the next quarter whether the tightening of credit conditions will hurt growth.

- Annual inflation rates are decelerating rapidly across the industrialized countries due to the comparison effect to the high prices of 2022. The exception is the United Kingdom. The consumer price index rose 0.8% in March, bringing the annual change to 10.1% from 10.4% in February. Eating looks like a luxury as food prices rose 1.1% in one month and 19.1% over one year. Energy costs 0.5% less than in February, but still remains 40.5% higher than in March 2022.

The British's greater reliance on natural gas for heating and lighting explains the significant difference in inflation between Europe and the United Kingdom. By way of comparison, energy prices in Europe were up 13.7% year-over-year in March compared to 18.9% the previous month. The persistent inflation is expected to prompt the Bank of England to continue its tightening.

RATE TRENDS

- The Bank of Canada kept its policy rate at 4.5% at its April meeting. The Bank could not ignore the regional bank crisis in the United States. The tightening of credit conditions that this situation is producing will slow growth in the U.S. in the near future and affect Canadian exporters of consumer goods and machinery. In Canada, a slowdown is still expected, but it has been delayed by at least one quarter. There is still excess demand and the Bank has had to raise its growth forecast for 2023 (1.4% instead of 1%) as the economy has started the year on the right foot. The labour market remains tight and the Bank believes that it will be impossible to achieve its inflation target if wages continue to grow by 4-5% without workers being more productive.

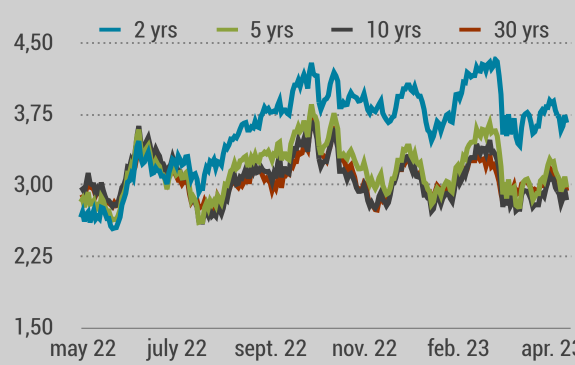
The governor was keen to set the record straight in a press conference. The scenario of a policy rate cut this year, as expected by some investors, is not in their deck. Instead, the Bank says it is still assessing whether monetary policy is tight enough to ease price pressures. The summary of the meeting's deliberations notes discussions of an April hike. The status quo was ultimately adopted in order to accumulate more information on the direction of the economy and inflation. Without cooling employment, a rate cut is just wishful thinking on the part of investors.

BOND RATES

Apr. 28, 2023	Canada	Monthly Change	Change 2023	United States	Monthly Change	Change 2023
Key Interest Rate	4,50 %	0,00 %	3,50 %	5,00 %	0,00 %	4,50 %
3 months	4,45 %	0,05 %	0,19 %	5,03 %	0,34 %	0,69 %
2 years	3,66 %	-0,08 %	-0,40 %	4,01 %	-0,02 %	-0,42 %
5 years	2,98 %	-0,04 %	-0,44 %	3,48 %	-0,09 %	-0,52 %
10 years	2,84 %	-0,06 %	-0,46 %	3,42 %	-0,05 %	-0,45 %
30 years	2,94 %	-0,06 %	-0,34 %	3,67 %	0,02 %	-0,29 %
RRB 30 years	1,25 %	-0,01 %	0,05 %			

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 2023	Change 10 yrs month	Change 10 yrs 2023	Change 30 yrs month	Change 30 yrs 2023
Royal Bank, Bail-in-debt	AA	150	185	215	-15	-15	-15	-15	-15	-15
Royal Bank, NVCC	A	215	260	300	-25	-10	-25	-10	-25	-10
Sun Life, subordinated debt	A	200	235	260	-10	0	-15	-5	-15	-10
Hydro One	A high	105	135	155	-5	-5	-5	-5	-10	-5
Enbridge Inc	BBB high	165	210	250	-10	-10	-10	-5	-15	-10
Altalink LP	A	105	135	155	-5	0	-5	0	-10	0
GTAA	A high	100	130	150	-5	-5	0	-5	-5	-5
Bell Canada	BBB high	150	195	225	-5	-10	-5	0	-5	0
Rogers Communications	BBBL	180	225	265	0	0	0	0	-5	-5
Loblaw	BBB high	145	180	205	-5	-5	-10	-5	-5	-5
Canadian Tire	BBB	165	205	250	-5	-5	-10	-5	-5	-5
Province Québec	AA low	46	75	97	2	0	1	3	0	3
Province Ontario	AA low	48	76	96	3	0	2	2	-1	1
CMHC	AAA	36	46	---	4	0	4	0		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance reached $4.5 billion in March, down $2.9 billion from the previous month and $200 million less than in April 2022. Year-to-date, bond financings total $27 billion, down 45% from the same period last year. The amount is small, but so is the number of transactions. There were only 5 corporate bond issues in April, 2 of which came from Canadian banks. The Royal Bank completed a $2.5 billion bail-in debt with a 5-year term. Investor demand was strong, a sign that the banking uncertainty of March is dissipating.
- U.S. bank JP Morgan acquired its rival First Republic after it was seized by the FDIC, the agency that insures bank deposits in the United States. This is the third bank in less than 2 months to be taken over by the FDIC. JP Morgan will pay the FDIC US$10.6 billion to obtain $173 billion in loans and US$94 billion in deposits. However, JP Morgan will not assume First Republic's market borrowings and preferred stock. Founded in 1985 and based in San Francisco, First Republic was worth only US$654 million at the close of business on April 28, down from more than US$20 billion at the start of the year. Although it had been unstable since the SVB bankruptcy, First Republic's problems became more apparent in late April when it reported losing more than US$100 billion in deposits in the first quarter.
- S&P lowered the province of British Columbia's credit rating from AA+ to AA while also maintaining a negative outlook on the rating. The agency cited a significant shift in fiscal management that calls into question the province's commitment to fiscal discipline and stability. After recording a $3.6 billion surplus in fiscal year 2022-23, the province announced a $4.2 billion deficit for the following fiscal year due to a significant 7.8% increase in spending. If the commitment to fiscal consolidation continues to falter, the agency is prepared to lower the rating again over the next two years.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Apr. 2023	2023
Universe	100 %	0,98 %	4,23 %
Short Term	42,5 %	0,44 %	2,27 %
Mid Term	27,3 %	0,73 %	4,61 %
Long Term	30,2 %	1,98 %	6,80 %
Federal	38,0 %	0,59 %	3,56 %
Provincial	34,6 %	1,12 %	4,96 %
Corporates	25,4 %	1,36 %	4,19 %
RRB		0,94 %	0,71 %

Source: ftse.com

Again, First Republic's problems stemmed from poor balance sheet management, not because the assets were of poor quality. However, if banking regulations (Dodd Frank) had not been relaxed, regulators would have had a better view of the financial situation and stress tests would have been conducted to ensure the bank's viability and liquidity.

The province still enjoys a low debt to GDP ratio, a diversified economy and access to international financing. While these positives support a high rating, BC faces some challenges. High real estate valuations in times of rising interest rates and its proximity to the Chinese economy at a time of escalating conflict with the United States are factors to consider.

STRATEGIC POSITIONNING

The global economy is showing some signs of slowing at the end of the quarter after starting the year strong in several regions. The reopening of China after months of zero Covid policy propelled global demand early in the year. The Canadian economy grew at a brisk pace in January, only to slow in the following months. In the U.S., personal consumer spending surged in January following the 8.7% increase of social security cheques, but the pace of growth quickly slowed in the following months and stalled in March. The same is true in the U.K. and Europe. Is this enough to stop central banks from tightening? Possibly, but inflation does not seem to be under control. The rate hike is therefore coming to an end, but this does not mean that cuts will take place very soon, as investors seem to be predicting. Before a rate cut can be initiated, inflation must convincingly return to its target or the economy must be headed full force into a recession. Currently, the economy is running out of steam, but a recession is not just around the corner. However, the regional bank crisis and the debt ceiling have the potential to turn things around for the worse. For now, this banking risk remains contained. The credit crunch that could result is a factor to watch that would slow growth and force layoffs, an essential condition for a recession.