MONTHLY BOND LETTER

ECONOMIC EVENTS

OCTOBER 2021

- Canadian employment rose by 157,100 in the month of September, returning the Canadian labor market to its February 2020 level. To put that in perspective, that's the equivalent of a 1.5 million job gain in the U.S. in one month. The total is impressive, but so are the details. The jobs were created in full-time positions (193,600) and spread across several industries, primarily in services. Indeed, several industries posted gains of nearly 30,000 positions last month. These include finance, professional services and information, culture and recreation.

Public sector employment increased by 78,000. These include workers hired temporarily for the federal election. All in all, an A+ grade for the Canadian job market, which has returned to its pre-pandemic level, while in the U.S. there are still 5 million fewer workers than in February 2020.

- The annualized rate of growth in the U.S. economy fell from 6.7% in the second quarter to 2.0% in the third quarter. Disruptions in global supply chains and resulting shortages hurt consumer spending on goods (-9.2%), especially durable goods spending, which fell 26.2%. In contrast, spending on services grew by 7.9%, but at a slower pace than previously because of the the Delta variant. Business investment also slowed, while residential real estate and international trade hurt growth.

Initially, companies responded to strong demand by drawing on shrinking inventories, forcing up prices. Now, disruptions in global supply chains and labor shortages will dampen activity in both North America and Asia. Inventories are depleted and companies are finding it more difficult to produce and sell their products.

- The Chinese economy is showing signs of weakness. GDP grew by 0.2% quarter-over-quarter during the summer and by 4.9% over the past year. A series of events explain this slowdown. The zero tolerance strategy towards Covid forced the closure of factories and some ports in the country. The authorities have also imposed pollution reduction targets to achieve carbon neutrality, forcing the temporary closure of coal-fired power plants and factories. As a result, policymakers are grappling with an energy crisis that is leading to electricity rationing in the country.

However, it is the instructions to slow down mortgage lending to ease the housing frenzy that could have a greater impact. The real estate sector contributes a quarter of the country's economic output. Will the country's leaders announce stimulus measures soon? Hard to believe if one of the goals is to reduce credit dependency.

RATE TRENDS

- The Bank of Canada kept its key policy rate at the floor level, but announced that it was ending its asset purchase program immediately. The Bank recognizes that labour shortages and disruptions in global supply chains will dampen global and Canadian growth. As a result, it has lowered its growth outlook for this year (5.1% vs. 6.0%) and next year (4.3% vs. 4.6%). At the same time, the Bank also significantly raised its inflation forecast for next year to 3.4% from 2.4% estimated in the last Monetary Policy Report in July. The Bank now expects the output gap in the Canadian economy to close by the middle of next year, which is a prerequisite for raising the policy rate.

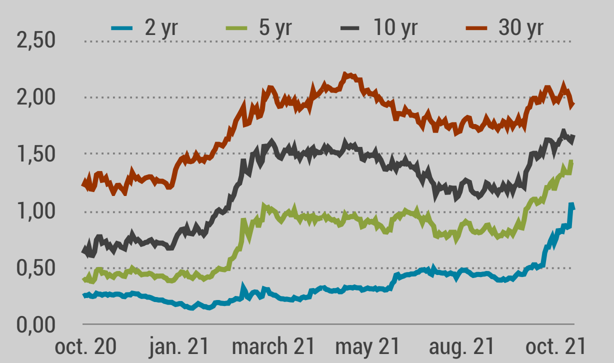
So what is the Bank's message? We underestimated the sustainability of inflation and we are correcting that. If the economy is growing slower, how can the output gap be closed faster? Easy, the Bank has just reduced the potential of the economy for the next few years under the pretext of a slower pace of business investment. Economic magic! Statistics Canada is now forecasting annualized growth of 2% in the third quarter, well below the Bank's forecast of 5.5%. How can they justify closing the output gap in mid-2022 if they are missing more than 3% growth in the third quarter?

BOND RATES

Oct. 31 2021	Canada	Monthly Change	Change 2021	U.S.	Monthly Change	Change 2021
Key Interest Rate	0,25 %	0,00 %	0,00 %	0,25 %	0,00 %	0,00 %
3 months	0,16 %	0,03 %	0,09 %	0,05 %	0,02 %	-0,01 %
2 years	1,09 %	0,56 %	0,89 %	0,50 %	0,21 %	0,38 %
5 years	1,51 %	0,40 %	1,12 %	1,18 %	0,19 %	0,82 %
10 years	1,72 %	0,21 %	1,05 %	1,55 %	0,04 %	0,64 %
30 years	2,00 %	0,01 %	0,79 %	1,93 %	-0,13 %	0,29 %
RRB 30 years	0,27 %	0,00 %	0,56 %			

Source: Bloomberg

CANADIAN RATE TRENDS



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CREDIT BOND RISK PREMIUMS

Émetteurs	Credit Rating DBRS	Spread 5 yrs	Spread 10 yrs	Spread 30 yrs	Change 5 yrs month	Change 5 yrs 2021	Change 10 yrs month	Change 10 yrs 2021	Change 30 yrs month	Change 30 yrs 2021
Royal Bank, Bail-in-debt	AA	75	105	150	5	10	5	0	5	-5
Royal Bank, NVCC	A	105	145	195	5	5	5	5	5	0
Sun Life, subordinated debt	A	90	130	180	0	0	0	0	0	-5
Hydro One	A high	60	95	130	-5	10	0	10	-5	0
Enbridge Inc	BBB high	95	145	225	-10	0	-5	-5	-5	-10
Altalink LP	A	60	90	125	-5	10	0	10	-5	0
GTAA	A high	60	95	130	-5	10	0	10	-5	0
Bell Canada	BBB high	85	130	200	-10	5	-10	0	-5	0
Rogers Communications	BBB high	110	155	225	-5	30	-5	25	-5	25
Loblaw	BBB high	80	125	185	-5	5	-5	0	-5	-10
Canadian Tire	BBB	90	140	230	-5	-5	-5	-15	-5	-25
Province Québec	AA low	27	54	70	5	-3	0	-3	-3	-9
Province Ontario	AA low	31	59	75	5	-4	0	-3	-2	-6
CMHC	AAA	24	38	---	6	3	3	6		

Source: National Bank Financial

CREDIT MARKET

- New Canadian corporate bond issuance totaled $10.5 billion in October, up $400 million from the previous month and $3.1 billion more than in October 2020. Year-to-date, bond financings totaled $98.7 billion, equivalent to last year's total after 10 months. The airport sector was active last month with an issue by Heathrow and the Calgary Airport Authority. The Calgary Airport Authority completed a $2.075 billion financing in 6 issues with maturities ranging from 15 to 40 years. The proceeds of the financing will be used to repay two-thirds of the Authority's debt to the Province of Alberta, to pay transaction costs and for general corporate purposes.
- Rogers Communication is in the midst of a family feud worthy of a Netflix series. Edward Rogers, chairman of the board and son of founder Ted Rogers, became dissatisfied with the financial results under Joe Natale's presidency and sought to replace him with CFO Tony Staffieri. This fourth change in Rogers' leadership since the death of founder Ted Rogers sparked a family confrontation. Edward's mother and two sisters clashed, blocking Natale's firing, kicking Staffieri out and removing Edward from his position. Edward initiated a plan to change 5 of the 14 directors of the company while reinstating his position. Two groups are now claiming to be in charge of the company and the courts will have to decide. This war could jeopardize the Shaw Communication bid, which still requires CRTC approval.
- The easing of sanitary measures and the opening of borders to foreign travellers allowed the Montreal Airport to improve its financial ratios in the last quarter. The number of passengers passing through the city's terminals in the third quarter reached 1.93 million, three times the number at the same time last year (0.61 million), but only 32% of the volume in the third quarter of 2019. As a result, revenues ($84 million) jumped 57% over last year, allowing Montreal Airport to generate positive EBITDA of $31 million. This is a significant increase of $42 million over last year, but only 28% of what it was two years ago.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Oct. 2021	2021
Universe	100 %	-1,05 %	-4,96 %
Short Term	41,0 %	-1,08 %	-1,52 %
Mid Term	25,8 %	-1,72 %	-4,69 %
Long Term	33,1 %	-0,49 %	-9,30 %
Federal	34,2 %	-1,29 %	-4,59 %
Provincial	37,2 %	-0,95 %	-6,44 %
Corporates	26,4 %	-0,89 %	-3,26 %
RRB		-1,71 %	-5,92 %

Source: ftse.com

Natale is suffering the consequences of events beyond his control. The pandemic has reduced roaming fees and his media division is barely profitable and carrying the weight of a huge NHL contract signed before his arrival. In terms of governance, let's just say that this saga raises a few red flags in our evaluation grid.

With the lifting of travel restrictions and pent-up consumer demand, air traffic is expected to increase in the near future. However, many airline employees laid off during the pandemic may have found jods elsewhere, limiting the ability of airlines to offer more routes. The labor shortage is hitting everyone.

STRATEGIC POSITIONNING

After extending the transition period for inflation, some central bankers are now worried about losing inflation expectations anchor. In addition to the Bank of Canada, which took a harder line at its October meeting, the Bank of Norway and the Bank of New Zealand have raised their policy rates. The Bank of England has indicated that it will have to act soon to control inflation and the Reserve Bank of Australia has abandoned its yield curve control. Short-term rates have risen sharply while long-term rates have remained stable. How do we interpret this flattening of the yield curve? Investors seem to be indicating that a rate hike could prove to be a policy mistake that will have to be reversed. Over the course of the year, the supply of goods could not keep up with the strong demand stimulated by government support, creating price pressures that manifested themselves during the summer. However, disruptions in global supply chains now appear to be slowing economic activity. Monetary policy is an ineffective tool when it comes to addressing supply-side issues such as we are currently experiencing. Removing monetary stimulus will only weaken demand to the disrupted supply level, delaying the return to potential. Since inflation is a lagging indicator that always takes 6-9 months to show up, central banks are showing that they are behind the curve by worrying about inflation. The focus should be on the slower pace of growth.