MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

APRIL 2025

- Employment in Canada is beginning to show signs of weakness. In March, the Canadian economy shed 33,600 jobs, pushing the unemployment rate up 0.1% on February to 6.7%. This was mainly due to the loss of 62,000 full-time jobs, while part-time positions rose by 29,500. Goods-producing industries shed 11,700 jobs, notably in agriculture (-9,300) and manufacturing (-7,100). Service industries lost 20,900 jobs in March, with marked declines in retail trade (-28,500) and information, culture and recreation (-20,300). The Bay's bankruptcy probably contributed to the weakness in retail trade.

Industries linked to international trade and those exposed to discretionary household spending appear to be struggling. Overall, the labor market lost momentum. The labor force grew very little (+3,500), despite a 51,800 increase in the number of people aged 15 and over, reflecting a negative perception of the labor market among the population. This impression is reinforced by the rise in the proportion of long-term unemployed (over 27 weeks), from 18.4% in March 2024 to 23.7%.

- The first estimate of US GDP showed a 0.3% decline in the first quarter of the year, following growth of 2.4% in the previous quarter. As expected, international trade was a major drag on the economy. Exports rose by 1.8%, while imports jumped by 41.3% on an annualized basis. The explosion in the trade deficit thus subtracted 4.8% from GDP growth. However, some of these imports ended up in the inventories of companies, which massively pre-ordered to avoid reciprocal tariffs. This inventory accumulation added 2.3% to GDP. Government spending also fell in the first quarter (-1.4%), while consumers increased their spending by 1.8%. A significant proportion of growth came from business investment (+7.8%), particularly in equipment (+22.5%).

This is the first quarterly contraction in 3 years. Tariff threats have introduced a lot of noise into the reading of economic data lately. It is quite possible that foreign trade will make a positive contribution next quarter, due to an anticipated drop in imports. However, inventory levels will need to be closely monitored. As companies sell off their warehoused goods, shortages could arise, leading to higher prices. New imports will also be more expensive.

- The European economy posted stronger-than-expected growth, expanding at an annualized rate of 1.6% in the first quarter, double that of the previous quarter. Domestic demand was boosted by confidence in Germany following the announcement of an ambitious budget spending plan. Spain stood out with growth of 2.4%, but the prize went to Ireland with growth of 13.3%. This country is home to a number of pharmaceutical companies that have increased their inventories in order to ship medicines to the United States.

One man's misfortune is another man's gain. While foreign trade acts as a brake on growth in the United States, it temporarily stimulates growth elsewhere, such as in Europe. Foreign companies have been shipping heavily into the US in anticipation of Liberation Day. However, this trend is set to reverse in the coming quarters.

RATE TRENDS

- The Bank of Canada announced that it would maintain its key rate at 2.75% at the end of its April meeting. "The major shift in the direction of U.S. trade policy and the unpredictability surrounding tariffs have increased uncertainty, moderated the outlook for economic growth and raised inflation expectations," the Bank stated. Not knowing what the level of tariffs will be, nor whether they will be maintained for long or retaliated against, the Bank preferred to present two distinct growth and inflation scenarios. This is clearly a blind exercise. In the first scenario, the Bank assumes a de-escalation of global protectionism, while the second scenario assumes a prolonged global trade war.

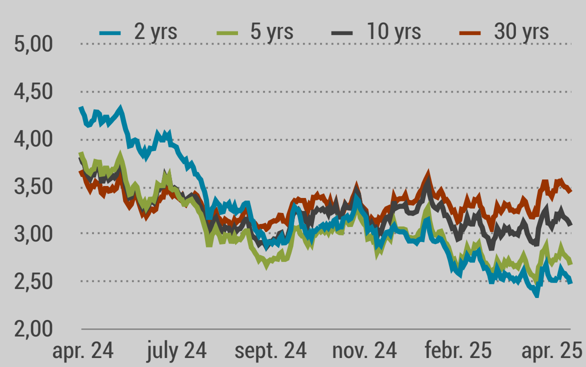
In the absence of certainty, it's better to abstain. That's the message from the Bank of Canada. Although Canada appears to have been partially spared by the reciprocal tariffs on April 2, the Bank recognizes that the current uncertainty is already weighing on consumer and business confidence. If uncertainty persists without further escalation of tariffs, the Canadian economy could still slow and require an additional boost as early as June. The economic risk seems greater than the inflation risk, especially in an economy in oversupply and with the recent appreciation of the loonie.

BOND RATES

April 30, 2025	Canada	Monthly Change	Change 2025	United States	Monthly Change	Change 2025
Key Interest Rate	2,75 %	0,00 %	-2,25 %	4,50 %	0,00 %	-1,00 %
3 months	2,66 %	0,02 %	-0,49 %	4,29 %	-0,00 %	-0,03 %
2 years	2,48 %	0,02 %	-0,45 %	3,60 %	-0,28 %	-0,64 %
5 years	2,68 %	0,07 %	-0,29 %	3,73 %	-0,22 %	-0,66 %
10 years	3,09 %	0,12 %	-0,13 %	4,16 %	-0,05 %	-0,41 %
30 years	3,44 %	0,22 %	0,11 %	4,68 %	0,11 %	-0,10 %
RRB 30 years	1,58 %	0,25 %	0,13 %			

Source: Bloomberg

CANADIAN RATE TRENDS



CREDIT BOND RISK PREMIUMS

Issuers	Credit Rating DBRS	Spread 5 yrs	Spread 10 yrs	Spread 30 yrs	Change 5 yrs month	Change 5 yrs 2025	Change 10 yrs month	Change 10 yrs 2025	Change 30 yrs month	Change 30 yrs 2025
Royal Bank, Bail-in-debt	AA	95	120	150	0	15	0	15	-5	10
Royal Bank, NVCC	A	150	185	225	5	25	5	25	0	20
Sun Life, subordinated debt	A	125	160	200	0	30	0	25	0	25
Hydro One	A high	70	100	120	0	10	0	10	-5	0
Enbridge Inc	A low	115	155	195	5	25	5	30	5	20
Altalink LP	A	70	100	120	0	10	0	10	-5	0
GTAA	A high	65	95	115	0	10	0	10	-5	0
Bell Canada	BBB high	115	150	190	0	15	0	5	5	0
Rogers Communications	BBBL	120	155	195	0	15	0	5	5	5
Loblaw	BBB high	100	135	170	5	25	5	20	5	10
Canadian Tire	BBB	125	160	200	5	20	5	15	5	5
Province Québec	AA low	26	68	98	-3	2	0	3	-1	8
Province Ontario	AA low	27	67	94	-3	3	1	5	-1	8
CMHC	AAA	15	35	---	-1	2	-2	-1		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance totaled $3.1 billion in April, down $5.9 billion on the previous month and $2.7 billion less than in April 2024. Year-to-date bond financing totaled $34.7 billion, down 9% on the same date last year. The primary market was virtually closed for the first two weeks of the month. Uncertainty surrounding the reciprocal tariffs announced on April 2 and their suspension for 90 days a week later led to a period of high volatility that worried investors.

- After announcing a record deficit of $13.6 billion for the current fiscal year, the province of Quebec has had its credit rating downgraded one notch by S&P to A+. This decision was prompted by several factors: the demographic challenges facing the province, increases in compensation expenses linked to collective bargaining agreements, a high operating deficit with no real prospect of a return to balanced budgets in the short term, and continued deficits after investments representing more than 10% of total revenues for the next three years. This downgrade had no major impact on yield spreads, since investors had already largely incorporated the deterioration in Quebec's public finances into their risk assessment. However, it could have a tangible impact on budget management, forcing the government to delay or suspend certain projects or spending.

- Telus Communication has waited for the storm caused by reciprocal customs duties to subside before proceeding with financing totalling $1.6 billion in two 30-year hybrid bond issues. Both can be redeemed at the issuer's option, one after 5 years and the other after 10 years. These securities are considered hybrid debt due to their combination of bond and equity characteristics. They rank below other bonds in the company's capital structure, but above shares. In addition, Telus can defer interest payments for up to five years, giving it greater financial flexibility than a normal bond. The proceeds from this financing will be used to refinance short-term debt.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Apr. 25	2025
Universe	100 %	-0,65 %	1,36 %
Short Term	40,6 %	0,12 %	1,81 %
Mid Term	31,3 %	-0,27 %	2,38 %
Long Term	28,2 %	-2,16 %	-0,41 %
Federal	41,7 %	-0,44 %	1,80 %
Provincial	32,4 %	-1,08 %	0,79 %
Corporates	24,2 %	-0,42 %	1,39 %
RRB		-1,80 %	1,58 %

Source: ftse.com

The downgrade was not entirely unexpected, given the province's record of large deficits in recent years. What was more surprising, however, was that S&P proceeded with the downgrade without first changing the credit outlook from "stable" to "negative", as is often the case.

Hybrid debt is not new to the Canadian capital market. Since they rank lower in the company's debt structure, and interest can be deferred without creating an event of default, it is essential that the investor is well compensated for the additional risks compared to subordinated debt.

STRATEGIC POSITIONNING

It took the Trump administration less than 100 days to turn everything upside down. In that very short time, the White House tenant triggered a global trade par of a magnitude not seen since the 1930s, floated the idea of making Canada the 51st state, and even talked about annexing Greenland. Financial markets did not react favorably to his proposal for reciprocal tariffs. The response was unanimous. These trade tensions would lead to an economic slowdown, rising inflation, and possibly a decline in corporate profits and margins. These announcements represent a major supply shock for the global economy, which is built on international cooperation and complex, reliable supply chains. That cooperation is now broken — at least with the United States. The announcement caused financial markets to retreat, ultimately derailing his protectionist plan. Long-term bond yields surged after Liberation Day, while the U.S. dollar depreciated against most other currencies. These movements run counter to the usual trends during times of uncertainty, when investors typically seek refuge in bonds and the dollar. In this instance, financial markets acted as a check on Trump's decisions, and investors have now identified his Achilles' heel. In a short time, Trump tarnished the image of the United States and transformed the U.S. economy from a globally admired position of strength to one of vulnerability.