MONTHLY BOND LETTER

AlphaFixe Capital

MARCH 2024

ECONOMIC EVENTS

- Canada's consumer price index rose by 0.3% in February and by 2.8% over the past year, 0.1% less than January's annual rate. Energy prices jumped by 2.8% in February, but food prices remained stable. Notwithstanding these two volatile elements, core inflation was up 0.2% month-on-month and 2.8% year-on-year. A number of factors helped to keep inflation in check last month, including everything to do with communications. Internet service prices reportedly fell by 9.4% in one month in February, due to aggressive promotions by suppliers. The same was true of cellular packages, down 3.5% last month and 26.5% year-on-year. This decline is attributable to package prices and higher data quotas.

Cellular price drop only affects new packages offered by suppliers. But since the majority of Canadians don't switch providers every two months to take advantage of discounts, this decline doesn't affect every household budget, and deflation is an illusion. On the other hand, rents remain high, with annual growth of 8.2%. The Bank acknowledges its powerlessness in the face of housing inflation, and fears that monetary easing will breathe new life into the property market. For the time being, patience is still the order of the day.

- The US job market outperformed expectations in February with a gain of 275,000, 75,000 more than expected. However, the Bureau of Labor Statistics cut 124,000 jobs from its January figures in its revision. Several industries contributed to February's job growth, including construction (+23,000), retail trade (+88,500), food and accommodation services (+67,000) and healthcare (+64,500). Only 4 industries lost jobs, including temporary help services, where employment fell by 15,400. This was the 23rd consecutive month of decline for this precarious industry, which usually suffers job cuts first. Annual wage growth also slowed, from 4.4% in January to 4.3% the following month.

Overall, this labor market report shows that the economy is still growing, but at a somewhat slower pace. The weak month-on-month rise in wages in February (+0.1%) is welcomed by the Federal Reserve, which wants to see wages fall to ease pressure on service prices. However, household incomes are rising faster than inflation, enabling them to rebuild their purchasing power and maintain their pace of consumption.

- Japan has finally avoided recession. Japan's fourth-quarter GDP has been revised sharply upwards, from a contraction of 0.4% annualized to growth of 0.4%. This revision wipes out the two consecutive quarters of contraction (Q3 2023 -3.2%) and thus the technical recession. This change is explained by an upward revision in business investment spending and a positive contribution from international trade.

The country's largest trade union center succeeded in negotiating wage increases of 5.28% for 2024, the strongest growth in 30 years. This agreement prompted the Bank of Japan to abandon its negative interest rate policy after 8 years. However, the bank made it clear that its policy would remain accommodative for some time to come.

RATE TRENDS

- With no surprise, the Bank of Canada maintained its policy rate at 5% at the end of its March meeting. The US economy remains robust, which could support our exports. On the other hand, the picture for Canada's domestic economy is less rosy. The economy is growing below potential, GDP per capita is weakening, and final domestic demand contracted last quarter. Employment is rising, but at a slower pace than population growth. Taken together, these factors point to excess supply in the economy, reducing pressure on prices. However, underlying inflation remains high and persistent, due in particular to the rise in housing prices resulting from the country's current housing shortage.

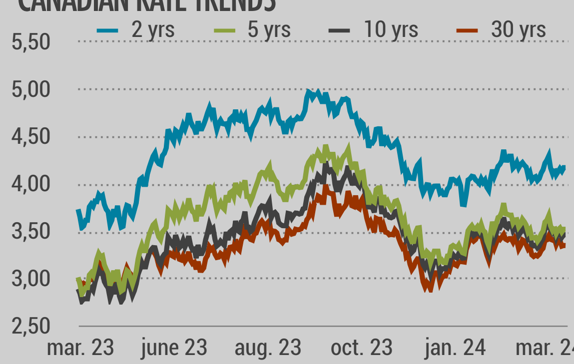
According to the Governor, high interest rates need a little more time to have an effect on the economy and relieve pressure on prices. However, the economy was surprisingly robust in January, with monthly growth of 0.6% and a forecast of 0.4% for February, according to Statistics Canada's initial estimates. Of course, the resolution of Quebec's labor dispute contributed to this recovery, but expansion is also widespread across several industries. Confronted with the resilience of its economy, the Bank of Canada will want to maintain its cautious approach before changing the direction of its monetary policy.

BOND RATES

March 31, 2024	Canada	Monthly Change	Change 2024	United States	Monthly Change	Change 2024
Key Interest Rate	5,00 %	0,00 %	0,50 %	5,50 %	0,00 %	0,50 %
3 months	5,01 %	0,04 %	-0,04 %	5,36 %	-0,02 %	0,03 %
2 years	4,18 %	-0,00 %	0,29 %	4,62 %	0,00 %	0,37 %
5 years	3,53 %	-0,04 %	0,35 %	4,21 %	-0,03 %	0,37 %
10 years	3,47 %	-0,02 %	0,36 %	4,20 %	-0,05 %	0,32 %
30 years	3,36 %	-0,00 %	0,32 %	4,34 %	-0,04 %	0,31 %
RRB 30 years	1,41 %	-0,11 %	0,11 %			

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 2024	Change 10 yrs month	Change 10 yrs 2024	Change 30 yrs month	Change 30 yrs 2024
Royal Bank, Bail-in-debt	AA	105	140	170	-5	-25	-5	-25	-5	-25
Royal Bank, NVCC	A	155	200	240	-5	-30	-5	-30	-5	-30
Sun Life, subordinated debt	A	130	170	205	-10	-35	-10	-35	-5	-30
Hydro One	A high	75	110	135	5	-10	5	-5	5	-5
Enbridge Inc	BBB high	120	165	215	-5	-10	0	-10	0	-5
Altalink LP	A	75	110	135	5	-10	5	-5	5	-5
GTAA	A high	70	105	130	5	-10	5	-5	5	0
Bell Canada	BBB high	115	155	200	0	-10	0	-10	5	0
Rogers Communications	BBBL	130	170	220	0	-15	0	-15	5	-10
Loblaw	BBB high	100	140	175	-5	-5	-5	0	0	0
Canadian Tire	BBB	120	165	210	-5	0	-5	5	0	5
Province Québec	AA low	39	72	93	1	1	2	6	3	5
Province Ontario	AA low	40	71	91	1	0	2	3	2	1
CMHC	AAA	28	42	---	1	0	1	-2		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate new bond issuance totalled $9.7 billion in March, down $300 million on the previous month, but $2.3 billion more than in March 2023. First-quarter bond financing totaled $32.3 billion, up 43% on the same period last year. Excluding the 6 major banks, total new issues in March amounted to $5.3 billion, reflecting widespread financing activity across all industries.
- S&P has revised its credit rating outlook on Bell Canada from stable to negative. Although the rating is maintained at BBB+, S&P believes that the increase in the debt-to-EBITDA ratio (3.5X) is above the threshold the agency has set as reasonable to maintain the rating. Bell Canada added $2.5 billion in net debt last year "reflecting higher working capital utilization, higher leases, investments (including fiber and spectrum) and higher interest expense in the context of a persistent cash flow deficit, due in part to high dividend payments". S&P expects debt-to-equity ratio to climb to 3.8X EBITDA this year. The business environment is also more competitive since Rogers's acquisition of Shaw. BCE will therefore have to implement a deleveraging plan if it wishes to retain its credit rating.
- The Legault government has announced that the shortfall for fiscal 2024-25 will amount to $11 billion (1.9% of GDP), including $1.5 billion in contingency provisions and $2.2 billion in payments to the Generations Fund. The deficit for the fiscal year ending at the end of March has also ballooned by $2.3 billion to $6.3 billion. A return to balanced budgets is not expected in the next few years. For the next fiscal year, revenues are expected to grow by 2.4%, propelled by autonomous revenues (+4.6%), but weakened by a decline in federal transfers (-6%). Expenditure will rise by 4.4%, with a large portion allocated to health and education. Population growth will impose additional costs on these two major budget items. The new collective agreements signed by the Front commun will also increase spending.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	March 2024	2024
Universe	100 %	0,49 %	-1,22 %
Short Term	42,9 %	0,48 %	0,33 %
Mid Term	28,9 %	0,69 %	-1,12 %
Long Term	28,2 %	0,32 %	-3,61 %
Federal	39,9 %	0,51 %	-1,17 %
Provincial	33,3 %	0,43 %	-2,22 %
Corporates	24,9 %	0,54 %	0,07 %
RRB		1,47 %	-1,81 %

Source: ftse.com

To maintain its credit rating, BCE will have to make choices. It could sell off non-essential assets, drastically cut costs or reduce its payout to shareholders. Last February, it announced 4,800 layoffs, the largest in 30 years, while increasing its dividend to shareholders. Bell is thus clearly showing its colors in favor of shareholders at the expense of its creditors.

Everybody's doing it, just do it! This catchy slogan from the now-defunct CKAC station aptly reflects the state of Canada's provincial public finances. Deficits are piling up at provincial level, and the provinces will have to increase the size of their bond issues over the next few years. As a proportion of GDP (1.9%), Quebec's deficit is not negligible, but still viable.

STRATEGIC POSITIONNING

As transport and parcel shipping companies can attest, the last stage of delivery - the last few miles to the final destination - is the most expensive and complex. This is exactly what central banks, especially the Federal Reserve, have been telling themselves lately. After a year of deceleration, inflation is proving more stubborn and persistent, complicating the last few miles to the 2% target. It is also difficult to reduce price growth when demand in the economy is above its potential growth rate. The Federal Reserve has recognized this excess demand by raising its growth forecasts for this year (2.1%) and next (2.0%), both above long-term potential (1.8%). What's more, the two industries most sensitive to rising interest rates - real estate and manufacturing - are showing signs of recovery. Manufacturing activity posted its first expansion in 16 months in March, while home resales jumped 9.5% in February. If the economy is struggling to slow and inflation remains high and persistent, perhaps financial conditions are not yet restrictive enough. Given that the moderating effect of monetary tightening eventually loses its bite over time, the rate cuts desired by investors may turn out to be wishful thinking. The Fed would like to cut its key rate this year, but it's also possible that it won't be able to do so.