MONTHLY BOND LETTER

AlphaFixe Capital

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ECONOMIC EVENTS

- Canada's population increased by 47,098 people in the second quarter, reaching 41,651,653 residents as of July 1, 2025. Although this represents a slight improvement from the first quarter (+30,038), it is still the weakest second-quarter growth since 1946, excluding the pandemic period. Nearly 72% of the population growth in the second quarter was due to immigration, compared with 95.3% during the same period last year. Over twelve months, Canada's population grew by 389,324 people (+0.9%), far below the growth rates above 3% seen in 2022 and 2023. It is worth noting that 60% of this annual increase occurred in the third quarter of 2024, before the new immigration rules took effect. Over the past nine months, quarterly population growth has averaged only 52,500 people.

The new rules are therefore beginning to take effect. The number of non-permanent residents has fallen by 124,915, now accounting for 7.3% of the total population. The goal is to bring this proportion down to 5% within two years. To achieve this, the number of non-permanent residents will need to be reduced by about 950,000 over six quarters. These structural changes have significant economic consequences: they ease pressure on the housing market, but also slow the pace of domestic demand—at a time when the economy is already experiencing another external shock from the United States.

- The Consumer Price Index (CPI) in the United States rose 0.4% in August, bringing the annual inflation rate to 2.9%, up from 2.7% in July. Households paid more for food (+0.5%) and energy (+0.7%). Excluding these volatile components, core inflation increased 0.4% month over month and 3.1% year over year. Inflationary pressures appeared in several categories, including clothing (+0.5%), new vehicles (+0.3%), and used vehicles (+1.0%). Housing prices also rose 0.4% in August, while transportation services recorded a 1% increase, driven by higher vehicle maintenance and repair costs (+2.4%) and airfare prices (+5.9%).

American companies had taken preventive measures by increasing their inventories to avoid paying higher tariffs. Since then, stocks of non-tariffed products have quickly declined, and the inflationary effect has begun to emerge in the third quarter. However, the Federal Reserve believes that these pressures will remain temporary, given the recent weakness in the labor market. According to ADP, private-sector employment fell by 33,000 in September, marking the third monthly decline in the labor market over the past four months.

- China's trade surplus with the rest of the world increased by $3 billion in August, reaching $102.3 billion. Exports grew 4.4% year over year, down from 7.2% in July. A similar trend was seen in imports, which rose 1.3% over the year, compared with 4.1% in the previous month. China's trade surplus with the United States fell from $23.7 billion in July to $20.3 billion in August, due to a sharper decline in exports than in imports.

Year-to-date, exports rose by 5.9%, artificially boosted by export activity to the United States earlier in the year. However, imports fell by 2.2% over the same period, indicating that domestic demand remains weak and may require government support.

RATE TRENDS

- As expected by investors, the Bank of Canada announced a 0.25% cut in its policy rate, bringing it down to 2.50%. The Bank highlighted signs of a slowdown in the U.S. economy, where employment growth is losing momentum. The Canadian economy is also feeling the impact of trade tensions with the United States, marked by a decline in exports and GDP in the second quarter, as well as a net loss of 106,000 jobs since the last meeting in July. Moreover, inflationary pressures have eased. Recent data show that core inflation growth has weakened in recent months. The Bank also expects that Canada's removal of counter-tariffs on imports from the United States will further help reduce price pressures.

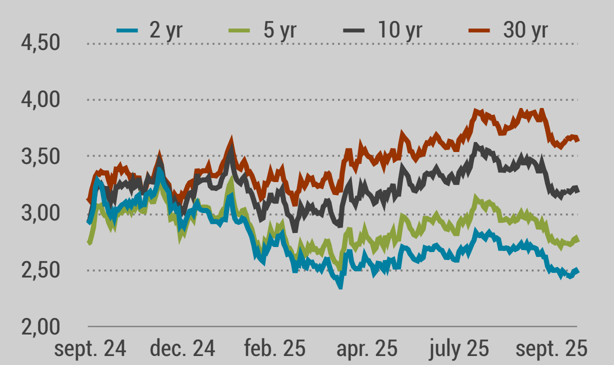
The Bank of Canada does not appear to be on a predetermined path and prefers to adopt a pragmatic approach, adjusting its monetary policy according to the evolution of economic data. Since the economy continues to grow below its potential and immigration-driven demand is fading, monetary policy could be further eased. Moreover, the Bank will likely wait for the release of the federal budget before assessing whether the government will provide additional support. The size of the upcoming federal deficit and the projects that will be announced could provide stimulus, thereby reducing the burden on the Bank of Canada.

BOND RATES

Sept. 30, 2025	Canada	Monthly Change	Change 2025	United States	Monthly Change	Change 2025
Key Interest Rate	2,50 %	-0,25 %	-1,75 %	4,25 %	-0,25 %	-0,75 %
3 months	2,44 %	-0,23 %	-0,71 %	3,95 %	-0,19 %	-0,36 %
2 years	2,47 %	-0,17 %	-0,46 %	3,62 %	0,00 %	-0,62 %
5 years	2,75 %	-0,13 %	-0,22 %	3,73 %	0,03 %	-0,65 %
10 years	3,18 %	-0,20 %	-0,04 %	4,14 %	-0,09 %	-0,43 %
30 years	3,63 %	-0,19 %	0,30 %	4,70 %	-0,23 %	-0,08 %
RRB 30 years	1,65 %	-0,10 %	0,20 %			

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 2025	Change 10 yrs month	Change 10 yrs 2025	Change 30 yrs month	Change 30 yrs 2025
Royal Bank, Bail-in-debt	AA	70	95	125	-10	-10	-10	-10	-10	-15
Royal Bank, NVCC	A	110	140	175	-5	-15	-5	-20	-10	-30
Sun Life, subordinated debt	A	95	125	165	-5	0	-5	-10	-5	-10
Hydro One	A high	55	85	110	0	-5	0	-5	0	-10
Enbridge Inc	A low	90	125	155	-5	0	-10	0	-10	-20
Altalink LP	A	55	85	110	0	-5	0	-5	0	-10
GTAA	A high	50	80	105	0	-5	0	-5	0	-10
Bell Canada	BBB	95	125	160	0	-5	-5	-20	0	-30
Rogers Communications	BBBL	95	130	160	0	-10	-5	-20	0	-30
Loblaw	BBB high	70	100	135	-5	-5	-10	-15	-5	-25
Canadian Tire	BBB	90	120	160	-5	-15	-10	-25	-5	-35
Province Québec	AA low	16	55	84	-1	-8	-3	-10	-3	-6
Province Ontario	AA low	18	53	81	-1	-6	-4	-9	-3	-5
CMHC	AAA	11	28	-	-1	-2	-2	-8		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuances reached $20.5 billion in September, an increase of $8.7 billion from the previous month and $8.8 billion from September 2024. Since the beginning of the year, bond financing has totaled $109.4 billion, up 11% from the same period last year. This marks the second most active month in Canadian market history, after March 2022 ($28.7 billion). Both volume and number of transactions were high: in total, 42 issues were completed by 31 different issuers, which is 12 more issuers than in March 2022. Despite economic uncertainty, investor appetite for credit securities remains strong.
- Among the active issuers this month was Fairstone Bank of Canada, which issued a $250 million, 3-year bond offering a 1.35% yield premium over federal bonds of the same maturity. Rated BBB solely by DBRS, the issue attracted interest from 35 investors, who submitted purchase intentions totaling more than $1.1 billion. Fairstone specializes in consumer lending to borrowers with modest credit scores but adequate repayment capacity. Given this business model and the challenging domestic economic environment, analyzing the company's financial statements is essential. However, Fairstone refused to disclose its results before the issuance, meaning lenders will have to wait until after settlement to obtain a clear picture of the risk involved.
- The Ontario Ministry of Finance released final results for the 2024-25 fiscal year, reporting a deficit of $1.1 billion, which is $4.9 billion better than expected in the budget tabled earlier in the year. This improvement is largely due to higher-than-expected revenues ($4.6 billion above forecasts), almost entirely attributable to stronger own-source revenues. Meanwhile, program spending and debt-service costs were slightly lower than anticipated. As a result, the debt-to-GDP ratio was reduced by 0.4 percentage points to 36.2%. For the current fiscal year, the province has made no changes to its budget forecasts and still expects a deficit of $14.6 billion, or 1.2% of GDP.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Sept. 2025	2025
Universe	100 %	1,89 %	2,98 %
Short Term	42,5 %	0,83 %	3,54 %
Mid Term	30,3 %	1,82 %	4,39 %
Long Term	27,2 %	3,69 %	0,63 %
Federal	41,8 %	1,53 %	2,70 %
Provincial	31,6 %	2,55 %	2,47 %
Corporates	24,8 %	1,62 %	4,13 %
RRB		1,75 %	2,79 %

Source: ftse.com

This is a blatant example of the current investor exuberance. No bank would lend money to a client without first obtaining documentation about their financial situation. So why do some investors accept it? This represents a failure of the fiduciary duty that institutional investors are supposed to uphold on behalf of their clients.

Ontario and Quebec are the two provinces most affected by the trade conflict with the United States, and their Finance Ministers do not wish to revise their budget forecasts for the moment. However, since 90% of Canadian exports are exempt from tariffs, the impact of the conflict could prove to be more limited on the economies of these provinces as well as on their respective budgets.

STRATEGIC POSITIONNING

It took nine months, but the Federal Reserve has finally returned to a monetary easing path. The Fed announced a 0.25% reduction in its key interest rate, bringing it down to 4.25%, in a split decision. Indeed, Stephen Miran, the new Board of Governors member and ally of President Trump, reportedly favored a larger 0.50% cut. Although inflation has recently increased and remains persistent, the Fed acknowledges that the slowdown in the labor market now poses a greater risk. In its assessment, the higher inflation linked to tariffs should be temporary, as a weaker labor market limits the danger of a wage-driven inflationary spiral. The central bank is also aware that a decline in employment tends to be self-reinforcing, thereby increasing the risk of recession. A clear division has emerged within the Federal Reserve between Trump-aligned members like Miran and other, more moderate policymakers. In its latest economic projections published in September, the Fed revised upward its growth outlook for next year, lowered its unemployment rate projections, and raised its forecast for annual core inflation by 0.2 percentage points, now set at 2.6%. Despite these more optimistic forecasts, the timeline for rate cuts has been moved forward — raising questions about the potential influence of political power on the direction of monetary policy.