

MONTHLY BOND LETTER

AlphaFixe
Capital

ECONOMIC EVENTS

JUNE 2025

- Canada's trade balance with the rest of the world recorded two consecutive record deficits in April (\$7.6 billion) and May (\$5.9 billion). Exports increased by 1.1% in May, mainly due to a significant 5.7% rise in exports to countries other than the United States. This represents a historic high for Canadian exporters to these markets. In contrast, trade with our primary trading partner continues to deteriorate. Canadian exports to the United States fell by 0.9% in May, marking the fourth consecutive monthly decline. Imports from the United States also dropped by 1.2%, representing a third consecutive monthly decrease. As a result, Canada's trade surplus with the United States slightly increased, rising from \$3.1 billion in April to \$3.2 billion in May.
- The U.S. labor market remained stable over the past three months. The average monthly job creation was 150,000 in the last quarter, with 147,000 jobs added in June. The unemployment rate also decreased by 0.1% to 4.1%, due to a drop in the labor force. Since March, the labor force has declined by 1.2 million. Employment is growing, but the sources of this growth are less encouraging. The private sector added 74,000 jobs in June, with the majority (+59,000) coming from the private healthcare industry. The leisure and hospitality industry (+20,000) and construction (+15,000) also contributed. Moreover, government agencies added 73,000 workers, particularly within state governments (+47,000) and education (+40,000).
- Inflation in Europe has returned to the European Central Bank's (ECB) target. According to preliminary data from Eurostat, the consumer price index rose by 0.3% in June, bringing the annual inflation rate to 2.0%, compared to 1.9% in May. Excluding volatile components such as energy and food, the core inflation index shows a 2.3% annual growth, the lowest level since January 2022. The price of services is now increasing at an annual rate of 3.3%, down from 4% in April.

RATE TRENDS

- Like the Bank of Canada earlier this month, the Federal Reserve has also chosen to keep its key interest rate unchanged at 4.5%. The tone of the statement was softened, but the Fed still believes that conditions are not yet right to proceed with monetary easing. « Uncertainty surrounding the economic outlook has diminished but remains elevated. The committee remains attentive to the risks affecting both sides of its mandate. » Although the term stagflation is not explicitly mentioned in the statement, the risk is evident in the quarterly summary of economic projections. Growth expectations for 2025 have been lowered from 1.7% to 1.4%, while the projected core inflation for 2025 has been raised from 2.8% to 3.1%. Committee members still anticipate two rate cuts by the end of the year.



The business environment remains challenging for our exporters, and the recent increase in tariffs on steel and aluminum – now at 50% – does nothing to improve the climate. As long as trade tensions with our main partner persist, Canadian exporters will continue to face pressure. Nevertheless, market diversification efforts appear to be paying off, as evidenced by the record level of exports to countries outside the United States.

Elon Musk and DOGE have imposed significant budget cuts within the federal government and transferred several responsibilities to the states. As a result, some federal jobs have been moved to state governments. The job market remains resilient, but without clear signs of strength. Companies operating in cyclical sectors appear to have put their hiring plans on hold, waiting for more clarity on the economic outlook. A more pronounced decline in employment would be needed to push the Fed to continue its monetary easing.

The appreciation of the euro against the U.S. dollar has also recently helped to ease inflationary pressures. The unified currency appreciated by nearly 14% in the first half of the year. Moreover, certain structural changes—such as the trade war, deglobalization, as well as increased military spending and public deficits—are expected to continue putting upward pressure on prices over the longer term.

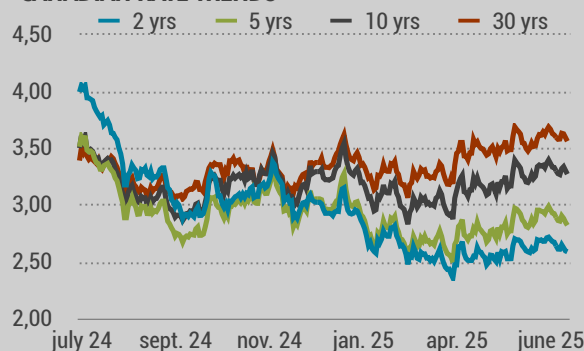
With an unemployment rate at 4.1% and a labor market that is not contracting, the Federal Reserve does not yet have sufficient evidence to resume its monetary easing. Economic activity has slowed, but it is not collapsing, and core inflation indicators are still hovering around 3%. In addition to inflation risks stemming from tariffs, the Fed now has to assess the economic impact of the fiscal stimulus recently passed by the U.S. Congress. This could delay the next rate cut and provoke the anger of Trump, who has been calling for a rate cut for some time.

BOND RATES

		Monthly Change	Change 2025		Monthly Change	Change 2025
June 30 2025						
Key Interest Rate	2,75 %	0,00 %	-2,00 %	4,50 %	0,00 %	-1,00 %
3 months	2,67 %	0,01 %	-0,47 %	4,29 %	-0,04 %	-0,02 %
2 years	2,59 %	-0,00 %	-0,34 %	3,72 %	-0,18 %	-0,52 %
5 years	2,83 %	0,02 %	-0,14 %	3,80 %	-0,16 %	-0,58 %
10 years	3,27 %	0,07 %	0,05 %	4,23 %	-0,17 %	-0,34 %
30 years	3,56 %	0,08 %	0,23 %	4,77 %	-0,16 %	-0,01 %
RRB 30 years	1,62 %	0,06 %	0,16 %			

Source: Bloomberg

CANADIAN RATE TRENDS



CREDIT BOND RISK PREMIUMS

Issuers	Credit Rating DBRS	Change								
		Spread			5 yrs		10 yrs		30 yrs	
		5 yrs	10 yrs	30 yrs	month	2025	month	2025	month	2025
Royal Bank, Bail-in-debt	AA	85	110	140	0	5	0	5	0	0
Royal Bank, NVCC	A	125	160	200	-5	0	-5	0	-5	-5
Sun Life, subordinated debt	A	100	135	175	0	5	0	0	0	0
Hydro One	A high	55	85	110	-5	-5	-5	-5	-5	-10
Enbridge Inc	A low	100	135	170	5	10	0	10	-5	-5
Altalink LP	A	55	85	110	-5	-5	-5	-5	-5	-10
GTAA	A high	50	80	105	-5	-5	-5	-5	-5	-10
Bell Canada	BBB	95	135	165	-5	-5	0	-10	-5	-25
Rogers Communications	BBBL	100	140	165	-5	-5	0	-10	-5	-25
Loblaw	BBB high	75	110	145	-5	0	-5	-5	-5	-15
Canadian Tire	BBB	100	135	175	-5	-5	-5	-10	-5	-20
Province Québec	AA low	20	62	89	-2	-4	-5	-3	-2	-1
Province Ontario	AA low	21	61	86	-2	-3	-5	-1	-1	0
CMHC	AAA	12	31	---	-1	-1	-1	-5		

Source: National Bank Financial

CREDIT MARKET

Canadian corporate bonds new issuance reached \$18.5 billion in June, up \$4.3 billion from the previous month but \$1 billion less than in June 2024. Since the beginning of the year, total bond financing amounts to \$67.2 billion, which is 5.1% less than at the same time last year. Investor enthusiasm for corporate bonds continued in June, making it the fifth most active month for financing. Activity was also well distributed across industries, with 35 issuances from 27 different issuers. Excluding the banking sector, bond financing still totaled \$13.3 billion.

Investor appetite for provincial bonds remained strong in June, particularly for 10-year securities, with spreads narrowing by 5 basis points for Quebec and Ontario bonds. All provinces have now presented their budgets for the current fiscal year (2025–26), with total projected deficits amounting to \$45 billion—\$25 billion more than in the previous fiscal year. This marks the fourth consecutive year of worsening deficits and the largest as a percentage of GDP in 13 years, excluding the pandemic period. The total funding requirement is \$139 billion for the 2025–26 fiscal year, but strong demand for provincial debt has allowed all provinces to complete nearly 40% of their borrowing needs within just one quarter. Quebec (50%) and Ontario (42%) are ahead of the other major provinces in terms of financing progress.

Telus Corporation carried out two hybrid debt financings in the U.S. market in June, totaling US\$1.5 billion. These issuances came just two months after a similar financing in Canada for \$1.6 billion. These securities are classified as hybrids because they combine features of both bonds and equity. They rank below other bonds in the capital structure but still take precedence over shares. Telus also has the ability to defer interest payments without triggering a default event. The company used the proceeds from these U.S. financings to redeem eight long-term senior notes in the Canadian market with a nominal value of \$4.5 billion.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	June 2025	2025
Universe	100 %	0,06 %	1,44 %
Short Term	42,1 %	0,27 %	2,19 %
Mid Term	31,2 %	0,22 %	2,30 %
Long Term	26,7 %	-0,42 %	-0,57 %
Federal	41,4 %	-0,03 %	1,41 %
Provincial	32,1 %	0,00 %	0,88 %
Corporates	24,8 %	0,29 %	2,28 %
RRB		-0,58 %	1,23 %

Source: ftse.com

Despite surging deficits, the provinces are managing to finance themselves without too much difficulty, notably thanks to continued strong external demand. However, the trade conflict with the United States remains unresolved, and disparities could emerge between provinces depending on their level of exposure to American trade. Ontario remains the most vulnerable Canadian province.

This financial operation allows Telus to benefit from greater flexibility. Since only half of the hybrid debt is counted as debt, and the company has reduced its senior debt, Telus has improved its leverage ratios, which has been well received by rating agencies. This improvement could also enable it to consider a new acquisition.

STRATEGIC POSITIONNING

After a few difficult months in implementing its economic plan, the Trump administration can finally celebrate a legislative victory. The president succeeded in getting his budget plan (One Big Beautiful Bill) passed by Congress, which will allow him to extend the tax cuts enacted in 2017 while adding other tax relief measures, notably the elimination of the tax on tips. According to the Congressional Budget Office (CBO), this bill would reduce tax revenues by \$4.5 trillion over ten years, while lowering spending by \$1.1 trillion, mainly due to cuts in the Medicaid program. Although the CBO's forecasts do not include tariff revenues because of their unsustainability, a significant shortfall is still expected, which the Trump administration hopes to offset through economic growth. However, this budget is considered unfair as it favors the wealthiest taxpayers while reducing access to healthcare for the most vulnerable households. Moreover, the marginal propensity to consume of high-income households is lower, which limits the growth effect. Long-term financing of the federal debt thus becomes an urgent issue, especially in a context of a trade war likely to reduce foreign capital inflows. Domestic savings may therefore need to be tapped to finance the deficit, which would slow economic growth. The reaction of bond vigilantes to this additional debt will therefore need to be closely monitored.