MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

JULY 2025

- Canadian retail sales fell 1.1% in May after a 0.4% increase in April. Three of the nine major retail trade categories contributed to this decline. The auto sector posted a 3.6% drop, mainly due to a 4.6% decrease in sales at new vehicle dealerships — their first decline since February. Sales also fell in food stores (-1.2%) and gasoline stations (-1.4%). These three categories alone account for 56% of retail sales in Canada. However, this downturn appears to be temporary. According to a preliminary estimate from Statistics Canada, retail sales rebounded by 1.6% in June. Since the Consumer Price Index (CPI) shows only a 0.2% increase in goods prices in June, this suggests that sales volumes rose solidly to close out the quarter.

The easing of trade tensions with the United States gave consumers a window of opportunity to make certain purchases before the possible imposition of retaliatory tariffs in response to U.S. duties. That said, since goods compliant with the CUSMA are exempt from tariffs — and they account for nearly 90% of trade between the two countries — the direct economic impact should remain limited. Nonetheless, the uncertainty surrounding the economic outlook could lead to layoffs and dampen Canadian household spending, especially given that the agreement will be renegotiated in 2026.

- The U.S. economy rebounded in the second quarter, posting an annualized growth rate of 3% after a 0.5% contraction during the winter. Due to rising trade tensions, imports fell sharply (-30.3%), and businesses drew down their inventories to meet demand. As a result, net trade added 5% to GDP in the spring after subtracting 4.6% in the first quarter. On the other hand, inventory reductions shaved 3.2% off growth. Household spending grew by 1.4%, accelerating from the first quarter's 0.5%. Business investment slowed (1.9% versus 10.3% in the winter), mainly due to a pullback in fixed assets, while residential real estate contracted by 4.6%.

This performance, which exceeds the potential growth rate, masks certain weaknesses. The pace of household spending remains well below the 3% average seen in 2023 and 2024. Trade uncertainty, combined with rising mortgage rates and the growing inventory of new homes, continues to weigh on the residential sector. Moreover, the reduction in inventories raises concerns about future inflation, as newly imported goods will be subject to tariffs that could be passed on to clients.

- Labor market conditions in the United Kingdom are deteriorating again. The number of payroll employees fell by 41,000 in June, bringing total losses to 143,000 jobs over the past five months. In addition, businesses are showing less demand for labor. The number of job vacancies has been declining for the fifteenth consecutive month. This easing of labor market conditions is affecting wage growth. Wages rose 5% year-over-year, compared with 5.9% in February.

The risks of stagflation appear more pronounced in the United Kingdom than elsewhere. Employment and the economy contracted in the spring, while price pressures intensified. This surge in inflation is attributable to higher energy prices, airline fares, and service costs. To support the economy, the Bank of England will resume monetary easing, but at a moderate pace.

RATE TRENDS

- The Bank of Canada and the Federal Reserve both took a cautious approach during their July monetary policy meetings. For the Bank of Canada, the ongoing uncertainty surrounding U.S. trade policy justifies a wait-and-see stance, allowing time to gain better clarity and assess potential effects on the Canadian economy. On the Federal Reserve's side, the labor market is considered to be in balance, but inflation risks remain tilted to the upside, particularly due to tariffs imposed on trade partners. In this context, the Fed indicated it intends to maintain a slightly restrictive bias in its monetary policy.This position was not unanimous, as two committee members voted in favor of a 0.25% cut to the policy rate. It marks the first time two members dissented from a Fed decision since the Montreal Canadiens' last Stanley Cup win.

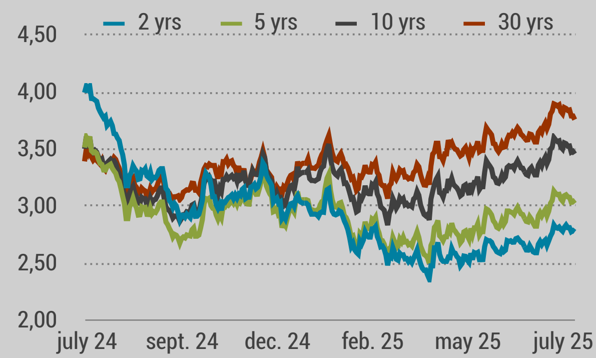
Trump now appears to have allies within the committee. Through their conflict, these members may be seeking to draw the attention of the White House, which will have to appoint a new Federal Reserve chair at the end of Jerome Powell's current term in May 2026. It is likely that the next Fed chair will be more closely aligned with the president's priorities. Such a prospect raises concerns about the Federal Reserve's independence from political power. To fulfill its mandate of price stability, a central bank must have the autonomy to tighten monetary policy, even during an election period. This is essential to the institution's credibility and to maintaining long-term control over inflation.

BOND RATES

July 31, 2025	Canada	Monthly Change	Change 2025	United States	Monthly Change	Change 2025
Key Interest Rate	2,75 %	0,00 %	-1,75 %	4,50 %	0,00 %	-1,00 %
3 months	2,69 %	0,02 %	-0,45 %	4,34 %	0,05 %	0,02 %
2 years	2,77 %	0,18 %	-0,16 %	3,96 %	0,24 %	-0,28 %
5 years	3,02 %	0,20 %	0,06 %	3,97 %	0,17 %	-0,41 %
10 years	3,46 %	0,19 %	0,23 %	4,37 %	0,14 %	-0,20 %
30 years	3,76 %	0,20 %	0,43 %	4,90 %	0,13 %	0,12 %
RRB 30 years	1,73 %	0,12 %	0,28 %			

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	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

- New Canadian corporate bond new issuance reached $10 billion in July, down $8.5 billion from the previous month and $2.7 billion less than in July 2024. Since the start of the year, total bond financing has amounted to $77.2 billion, 1.2% less than at the same time last year. Investor appetite for corporate bonds has remained strong. Robust demand drove Bloomberg Index spreads down by 12 basis points in July, closing the month at 0.85%. You have to go back to 2007 to see such a tight spread.

- Corporate bonds continue to earn investor favor despite the current uncertain economic environment. This attraction to riskier assets was also reflected in a significant number of Maple bond issuances this month — bonds issued by a foreign company on the Canadian market. In July alone, five foreign issuers borrowed in Canada for a total of $3.3 billion. By comparison, during the first half of the year there were seven Maple bond issues totaling $4.3 billion. Among the July issuers were U.S. insurer Pacific Life and the U.K.'s Heathrow Airport, the latter using the proceeds to help finance part of its £10 billion investment plan to improve infrastructure and passenger services.

- Canadian provinces issued a total of $7.5 billion in bonds in July, bringing the total for the fiscal year to $63.9 billion. Although the primary market in July was less active than the average of the previous three months ($11.8 billion), it was still the second most active July on record for Canadian-dollar-denominated issuances. Quebec (55%), Newfoundland and Labrador (51%), and Ontario (49%) lead the provinces in terms of the share of their financing needs already completed. However, the maturity profile of all new issuances differs from that seen last year. Between April and July, 17% of issuances had a maturity of less than 10 years, compared with 9% in the previous fiscal year. Meanwhile, the share of 30-year bonds fell to 34%, down 2% from last year.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	July 25	2025
Universe	100 %	-0,74 %	0,69 %
Short Term	42,4 %	-0,08 %	2,11 %
Mid Term	31,0 %	-0,64 %	1,64 %
Long Term	26,6 %	-1,90 %	-2,46 %
Federal	41,9 %	-0,77 %	0,62 %
Provincial	31,7 %	-1,24 %	-0,37 %
Corporates	24,6 %	-0,02 %	2,26 %
RRB		-0,62 %	0,59 %

Source: ftse.com

After seven months of activity, total Maple bond issuances stand at $7.6 billion — $600 million more than for all of 2024. While investor appetite is certainly present, the inclusion of new Maple issuances in the FTSE Canada corporate bond index since January 1, 2025, is compelling certain index-based investors to purchase these securities.

Investor demand for provincial bonds remains strong, but the steepening yield curve has likely encouraged provinces to favor shorter-term issuances. Quebec and Ontario remain the provinces most exposed to the trade dispute with the United States, due to the 50% punitive tariffs imposed on steel and aluminum exports.

STRATEGIC POSITIONNING

The uncertainty caused by the Trump administration's trade policy is beginning to weigh on the economy. Households are adopting a more cautious approach to managing their budgets and spending, while businesses are suspending certain investment projects and hiring programs. In this context, the labor market showed signs of weakness in July, with the creation of 73,000 jobs, a result below expectations. However, it is the significant revisions to the May and June data that drew attention: 258,000 jobs were cut compared to initial estimates. Over the last three months, only 35,000 jobs per month have been created, a pace well below the 123,000 monthly jobs recorded between January and April. Unhappy with this report, which he called rigged, Trump fired the commissioner of the Bureau of Labor Statistics. This is a concerning decision, as it could undermine investors' confidence in the reliability of official data. Investment decisions must be based on reliable and independent statistics. This dismissal is all the more worrying because it adds to the pressure from the White House on Jerome Powell to lower policy rate. If the next Fed chair challenges the institution's independence by responding to political orders, the consequences could be severe for financial markets. This scenario is not a priority for now but must be closely monitored.