MONTHLY BOND LETTER

AlphaFixe Capital

JANUARY 2025

ECONOMIC EVENTS

- The Canadian job market ends the year on a high note. Employment rose by 90,900 in December, the strongest monthly increase since January 2023. The new positions were well distributed between full-time (+57,500) and part-time (+33,500) jobs. Job gains also exceeded growth in the labour force (+66,700), with the result that the unemployment rate fell by 0.1% to 6.7%. Goods-producing industries added 22,500 workers, while there were 68,400 new jobs in services, well distributed across various industries. In fact, 8 out of 11 service-producing industries saw job gains, notably education (+17,400), health (+15,500) and finance (+15,900). On the other hand, wages in Canada are growing at a slower pace, rising by 3.8% year-on-year in December, compared with 4.1% the previous month.

The job market ends the year on a high note. Growth in 2024 (+2%) exceeds that of the USA (1.4%) and should sustain economic expansion. However, the Canadian economy will face headwinds in 2025. New immigration rules will have a negative impact on overall demand, as population growth falls from 3% in 2024 to a slight decline in 2025. The risk of tariff threats from the United States is also undermining confidence, and will delay some private-sector investment projects.

- US GDP grew at an annualized rate of 2.3% quarter-on-quarter, down 0.8% on the third quarter. However, the details show that activity is robust. Consumer spending jumped by 4.2% as households purchased durable goods (+12.1%), non-durable goods (+3.8%) and services (+3.1%). Residential real estate also contributed to growth (+5.3%) after two quarters of contraction. Government spending also rose by 2.5%. By contrast, business investment contracted (-2.2%), as companies responded to demand by drawing down some of their inventories instead of producing more. The fall in business inventories subtracted 1% from fourth-quarter GDP.

Final domestic demand (GDP excluding international trade and changes in inventories) rose by 3.1% in the last quarter. This rate of growth is well above the potential pace of the US economy (1.8%) and justifies a pause in monetary easing. Before continuing its rate cut, the Federal Reserve will want to see a slowdown in economic activity, employment and inflation. For the moment, this recipe lacks ingredients.

- China's trade surplus with the rest of the world reached a new record in 2024. Chinese exports jumped by 10.7% between December 2023 and December 2024, while imports rose by 1%, so that China's trade balance went from a surplus of US$97.4 billion in November to a surplus of US$104.8 billion the following month. For 2024 as a whole, exports rose by 5.9% and the trade surplus reached a record US$992 billion.

Growth in December was largely attributable to exports to the USA, as US companies sought to protect their supplies and the cost of goods. For the year as a whole, however, exports to the US were stagnant. This picture should not change Americans' opinion of China, and their willingness to curb its economic rise and global influence.

RATE TRENDS

- The Bank of Canada took out an insurance policy in January, announcing a 0.25% cut in its policy rate to 3.0%. The Bank points out that inflation should remain close to the 2% target, under the influence of excess supply, which is still present but should disappear by 2026. Economic growth next year is expected to be slower (1.8%) than forecast in October (2.1%) due to new immigration targets. Monetary easing in 2024 should support consumer spending and the housing market this year. Net export's contribution to growth has been revised downwards due to tariff threats, while the weakness of the Canadian dollar and trade worries are undermining business confidence and willingness to invest.

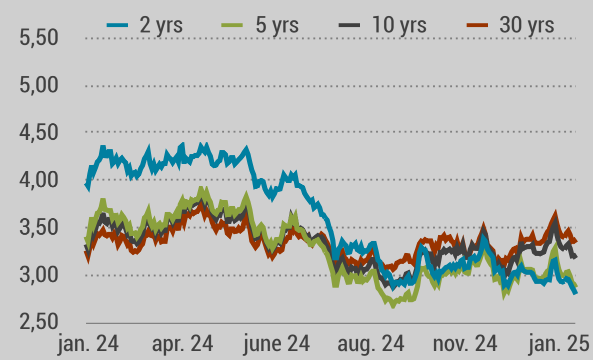
Given the uncertainty surrounding Trump's tariffs, the Bank did not want to play the game of presenting projections that incorporate the onset of a trade war between the two countries. Nevertheless, it estimates that a 25% tariff on all Canadian exports to the United States would cause a 2.5% contraction in GDP in the first year. Inflation would also rise, but the impact on economic output would be of greater concern to the bank, which would surely be called upon to support the economy. Tariffs have been suspended for 30 days, but the threat is still alive and kicking, and will be detrimental to growth.

BOND RATES

Jan. 31, 2025	Canada	Monthly Change	Change 2025	United States	Monthly Change	Change 2025
Key Interest Rate	3,00 %	-0,25 %	-2,00 %	4,50 %	0,00 %	-1,00 %
3 months	2,86 %	-0,28 %	-0,28 %	4,28 %	-0,03 %	-0,03 %
2 years	2,65 %	-0,28 %	-0,28 %	4,20 %	-0,04 %	-0,04 %
5 years	2,73 %	-0,24 %	-0,24 %	4,33 %	-0,05 %	-0,05 %
10 years	3,07 %	-0,16 %	-0,16 %	4,54 %	-0,03 %	-0,03 %
30 years	3,24 %	-0,09 %	-0,09 %	4,79 %	0,01 %	0,01 %
RRB 30 years	1,29 %	-0,17 %	-0,17 %			

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	145	5	5	5	5	5	5
Royal Bank, NVCC	A	130	165	210	5	5	5	5	5	5
Sun Life, subordinated debt	A	105	145	185	10	10	10	10	10	10
Hydro One	A high	65	100	125	5	5	10	10	5	5
Enbridge Inc	A low	105	140	185	15	15	15	15	10	10
Altalink LP	A	65	100	125	5	5	10	10	5	5
GTAA	A high	60	95	120	5	5	10	10	5	5
Bell Canada	BBB high	110	155	200	10	10	10	10	10	10
Rogers Communications	BBBL	115	160	200	10	10	10	10	10	10
Loblaw	BBB high	85	130	170	10	10	15	15	10	10
Canadian Tire	BBB	115	160	205	10	10	15	15	10	10
Province Québec	AA low	26	66	94	2	2	1	1	4	4
Province Ontario	AA low	28	64	92	4	4	2	2	6	6
CMHC	AAA	17	39	---	4	4	3	3		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bonds new issuance totaled $10.4 billion in January, down $1.2 billion on the previous month and $2.4 billion less than in January 2024. The banking sector continued to make a significant contribution to primary market activity, with 5 issues totalling $6.75 billion. Ford Credit Canada also borrowed $1 billion in two bonds with terms of 3 and 7 years. Shortly after this borrowing, S&P announced a negative outlook on Ford Motor Credit's credit rating (BBB-). The agency justifies this change by a lower profitability projection. The cost-cutting program is lagging behind, and the automaker is suffering losses in its electrical division.

- BCE announced its latest financial results and presented its outlook for the current year. Operating revenues totaled $6.42 billion, down from $6.47 billion for the same period last year. The company expects revenue pressure to continue into 2025. It is betting on a variation in revenues ranging from -3% to +1%. BCE reported earnings of $505 million last quarter, up 16% on the fourth quarter of 2023. Earnings should also be under pressure in 2025. Bell Canada also announced that it would reduce investments in 2025 following the CRTC's decision to allow smaller players in the industry to use its network in remote areas. Debt levels are still high, at over $40.5 billion, and BCE has identified assets it could divest to reduce borrowings.

- For the fifth month in a row, GDP in the province of Quebec posted positive monthly growth. After growing by 0.2% in September, Quebec's economy rose by 0.3% in October. Goods-producing industries led the charge with monthly growth of 0.5%, notably mining and oil and gas extraction. Service-providing industries rose by 0.2%, propelled by wholesale trade, real estate services and accommodation and food services. For the first 10 months of the year, GDP in Quebec is up 1.1% on the same period in 2023. Bank of Canada rate cuts in 2024 are likely to have a positive impact on economic activity in the province in the ;est 2 months of the year, especially for the real estate market.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Jan. 2025	2025
Universe	100 %	1,20 %	1,20 %
Short Term	40,4 %	0,88 %	0,88 %
Mid Term	31,6 %	1,45 %	1,45 %
Long Term	28,0 %	1,29 %	1,29 %
Federal	40,8 %	1,24 %	1,24 %
Provincial	32,8 %	1,24 %	1,24 %
Corporates	24,7 %	1,06 %	1,06 %
RRB		2,59 %	2,59 %

Source: ftse.com

High levels of immigration in recent years have boosted telecom companies' revenues. However, changes to immigration rules this year are putting downward pressure on Bell Canada's financial results. With a high level of debt to EBITDA (3.8X), Bell will need to accelerate asset sales to return to more comfortable ratios for its credit rating.

The creation of 34,000 jobs in the last two months of the year should also lend a hand to economic growth. In fact, the province reported the lowest unemployment rate in Canada. Nevertheless, the challenges for the current year are manifold. Canada's new immigration targets and Trump's tariff threats could hamper growth.

STRATEGIC POSITIONNING

After just a few days back in power, the new tenant of the White House has completely upset the economic order in North America. After being targeted with tariffs of 25%, Canada and Mexico managed to obtain a 30-day reprieve by agreeing to mobilize troops to monitor the borders. However, even though tariffs have been suspended for 30 days, the damage is done. Canadians feel under attack, and many are calling for us to reduce our dependence on our neighbors. The economic impact will be felt even in the absence of tariffs. Exports may accelerate in the face of tariffs, but some companies will put investment projects on hold until the situation is clearer. The evolution of the Canadian economy therefore depends, in part, on the decisions of an unstable external leader. He will also have an impact on the US economy. His economic measures - tax cuts, deregulation, tariffs and the deportation of immigrants - will have both positive and negative effects on the economy. The sequence in which he implements his plan is important for market trends. Deregulation and tax cuts will stimulate an already overheated economy, creating inflationary pressures. Conversely, the other two measures will harm growth. Trump has little political opposition to slow him down at present, but the financial bulwarks are present and alert. The economic situation is therefore uncertain, and depends on an unstable man. Risk-taking will have to be controlled.