MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

JUNE 2017

- Canadian employment showed a stellar performance in May, up 55,000. This gain mainly comes from the private sector (59,400) and full-time jobs (77,000). On the other hand, the increase in the number of people in the labour force raised the unemployment rate by 0.1 % to reach 6.6 %. Employment in Quebec increased by 15,000, mainly full-time jobs, which brings the last twelve months total to 83,000 jobs and the unemployment rate down to an historical low of 6 %.

In addition to employment, retail and manufacturing sectors have also reported strong gains since the beginning of the year. Even Alberta has managed to create 23,700 jobs in 5 months, which contrasts with the 31,400 lost jobs during the same period last year. Will the 20 % decline in oil prices this year curb the improved employment situation in the West?

- The Consumer Price Index in the United States declined to 1.7 % May from 2.1 % in April. At the beginning of the year, the annual inflation rate was 2.4 %. Notwithstanding food and energy sectors, inflation grew at a rate of 1.6 % down from 1.7 % in the previous month. The decline in prices since the beginning of the year is due in part to a reduction in cellphone service plans and health care costs, including professionals (doctors, dentists), prescriptions and insurance.

The decline in the price index appears to be linked to specific factors. While the Trump administration is planning to repeal and replace Obamacare, healthcare providers and stakeholders may have wanted to reduce tariffs to avoid being under the spotlight from Congress.

- Euro zone's economic growth in the first quarter of the year was revised from 2.0 % to 2.4 % in annualized terms. This expansion was mainly driven by consumer spending and corporate investments, as international trade did not contribue to growth during the quarter. Geographically, growth was well distributed, with Germany recording a 2.4 % gain, while France and Italy grew by 1.6 %.

The economic cloud over Europe has dissipated to the point where Mr Draghi indicated that deflationary forces have been replaced by reflationary ones. The European Central Bank could therefore reduce its QE program later this year, unless the upcoming Italian election heightens instability risk.

RATE TRENDS

- The Federal Reserve raised its key rate by 25 bps, setting it at 1.25 %. This decision has been justified by the pick-up in consumer spending and the expansion of corporate investments, even if the inflation rate has fallen below their 2% target. The Fed indicated that a balance sheet reduction is expected to start at the end of the year. Initially the Fed will decrease its reinvestment amount by $ 10 billion per month. This cap will be raised by $ 10 billion quarterly to reach $ 50 billion per month at its peak.

Although the Fed has fixed the amounts for its balance sheet reduction, the timing remains uncertain. By indicating a launch towards the end of the year, if the economy performs as expected, the Fed raises doubt as to its implementation and investors appear unconvinced. It will be a rude awakening if it proceeds.

- Although the Bank of Canada believes that the current policy rate is justified because of uncertainty surrounding the US economic policy, the first Deputy Governor, Carolyn Wilkins, set the table for a possible rate hike. Drawing a parallel, monetary policy is like driving a car she said, it is better to start easing up on the gas at the sight of a red light rather than to brake abruptly at the last minute.

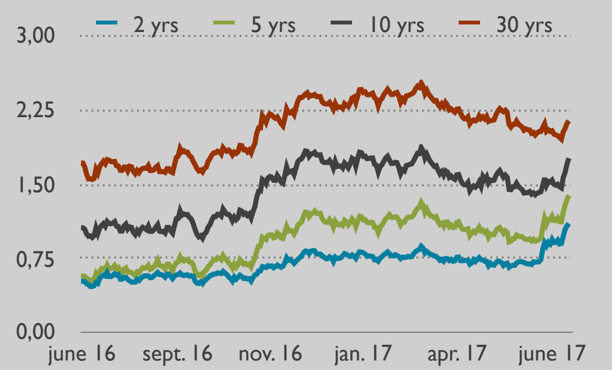
Now that US Commerce Secretary Wilbur Ross mentioned NAFTA renegotiations could continue until next year, the Bank will not be able to wait for the outcome in order to follow the Fed.

BOND RATES

June. 30 2017		Monthly Change	Change 2016		Monthly Change	Change 2016
Key Interest Rate	0,50 %	0,00 %	0,00 %	1,25 %	0,25 %	0,50 %
3 months	0,72 %	0,18 %	0,26 %	1,01 %	0,04 %	0,51 %
2 years	1,10 %	0,41 %	0,36 %	1,37 %	0,09 %	0,18 %
5 years	1,39 %	0,45 %	0,27 %	1,86 %	0,11 %	-0,07 %
10 years	1,76 %	0,35 %	0,04 %	2,28 %	0,08 %	-0,16 %
30 years	2,14 %	0,09 %	-0,17 %	2,83 %	-0,04 %	-0,24 %
RRB 30 years	0,59 %	0,11 %	0,09 %			

Source: Bloomberg

CANADIAN RATE TRENDS



1800 Ave. McGill College | Suite 2420 | Montréal (PQ) | H3A 3J6 514-861-3493 www.alphafixe.com info@alphafixe.com

CREDIT BOND RISK PREMIUMS

ISSUER	Credit rating DBRS	Credit rating S&P	Spread 5 yrs	Spread 10 yrs	Spread 30 yrs	Change 5 yrs month	Change 5 yrs 2017	Change 10 yrs month	Change 10 yrs 2017	Change 30 yrs month	Change 30 yrs 2017
Royal Bank, deposit notes	AA	AA-	80	100	140	-10	-15	-10	-10	-10	-15
Manulife, Senior debt	A high	A+	95	125	170	-15	-20	-15	-10	-15	-15
Fortis Inc.	BBB high	BBB+	100	145	180	-5	-20	-5	-20	-10	-45
Hydro One	A high	A	70	90	130	0	-10	-5	-15	-10	-20
Enbridge Inc	BBB high	BBB+	125	175	230	0	-5	0	-5	5	-10
Encana Corp	BBB low	BBB	170	225	300	5	-45	5	-60	5	-45
GTAA	---	A+	60	80	100	0	-10	0	-15	-10	-35
Bell Canada	BBB high	BBB+	95	145	205	-10	-20	-10	-20	-10	-20
Rogers Communications	BBB	BBB+	95	140	205	-10	-20	-10	-25	-10	-30
Loblaw	BBB	BBB	105	150	200	5	-15	0	-20	-5	-25
Canadian Tire	BBB high	BBB+	105	155	205	0	-20	0	-20	-5	-25
Province of Québec	A high	A+	49	69	80	-3	-6	-4	-9	-5	-12
Province of Ontario	AA low	A+	50	71	81	-3	-6	-4	-8	-4	-8
CMHC	AAA	AAA	36	48	---	-5	-2	-3	0		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance reached $ 9 billion in June, a decrease of $ 4.9 billion from the previous month, but $ 200 million more than in June 2016. Since the beginning of the year, corporate issuance reached a record high of $ 52.8 billion, or 32.5 % more than at the same time last year. Among the borrowers in June, Saputo issued $ 300 million for a 5-year term. This is a first issue from the Quebec dairy producer since its credit rating was raised to the A category (A3 to be precise) by Moody's. The agency considers that this upgrade results from historically strong credit metrics along with excellent free cash flow and geographical diversification.
- S&P raised Quebec's credit rating from A+ to AA-. The agency rewarded the province for maintaining its prudent fiscal policy based on rigorous expenditure control and revenue expansion, resulting in a budget surplus. The best performance in terms of income was largely the result of job creation in the last 12 months. As a result, Quebec will be in a position to further reduce its debt ratio over the next two years. With this improvement, the province's credit rating is, for the first time in its history, higher than Ontario's and Alberta's. Only the province of Saskatchewan and British Columbia have higher credit ratings.
- Aimia, owner and operator of the Aeroplan Loyalty Program, announced the suspension of all dividend payments on common and preferred shares in addition to the resignation of three members of its board of directors. This decision comes in the wake of Air Canada's announcement that it plans to launch its own loyalty plan in 2020. The portion of the rewards awarded to Air Canada was 47 % in 2016 and 60 % in the first quarter of 2017. In order to mitigate the financial impact of Air Canada's decision, Aimia announced a cost reduction program of $ 70 million by 2019. Suspending dividends will also save $ 34.2 million quarterly.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	June 2017	2016
Universe	100 %	-1,17 %	2,36 %
Short Term	45,4 %	-0,98 %	0,25 %
Mid Term	22,9 %	-2,27 %	1,34 %
Long Term	31,7 %	-0,66 %	6,06 %
Federal	36,5 %	-1,45 %	0,85 %
Provincial	34,4 %	-1,04 %	3,53 %
Corporates	27,3 %	-0,96 %	2,87 %
RRB		-1,87 %	0,07 %

Source: ftse.com

The agency places more emphasis on budget balance trends and the plan to return to balance than the level of indebtedness per se. Quebec is the second most indebted province after Newfoundland, but currently has the highest budget surplus in proportion to its GDP.

Given that air transportation is the main use of Aeroplan member points, Aimia will have to find a replacement for Air Canada. Otherwise, members may want to redeem their points quickly for fear of losing them. Currently, Aimia owes the equivalent of $ 3.2 billion in accumulated points.

STRATEGIC POSITIONNING

While global economic conditions are showing signs of robustness across regions, central bankers are increasing the rhetoric about withdrawing monetary stimulus. At first, the Federal Reserve was the only one in the crusade to normalize rates, but at the end of June, the European Central Bank, the Bank of England and even the Bank of Canada adjusted their speeches to match that of the Fed. Bank of England's Mark Carney, who declared after the UK election that the timing wasn't good to raise rates, adjusted his speech the following week, saying that the debate in favor of a rate hike is intensifying. In an interview on CNBC, Mr. Poloz added to Carolyn Wilkins statements from the Bank of Canada earlier this month. He mentioned that the 0.50 % reduction in the key rate in 2015, used as an insurance policy after the oil shock, had the desired effects in stabilizing the economy. He said it is time to reassess this insurance now that the economy's excess capacity has been reduced. Overall, monetary policies are adjusting global growth. We are far from removing all monetary stimulus from the system, but investors did not seem ready for this change of tone, which was an eventuality given the economic upturn.