MONTHLY BOND LETTER

AlphaFixe Capital

JUNE 2021

ECONOMIC EVENTS

- The third wave of Covid in the spring disrupted Canadian retail sales in April. Retailers reported a 5.7% drop in sales and a 7.6% drop if auto dealers and gasoline sales are excluded. The application of strict sanitary measures further affected retailers in Ontario and Manitoba, which experienced a 13.4% and 8% drop in sales. Notwithstanding these provinces, sales were down 0.7%, of which -1.8% for Quebec retailers. Of the 11 sectors surveyed, 9 recorded declines, including -28.6% for apparel and clothing accessories and -26.7% for sporting and leisure goods.

Since some measures were still in place in May, Statistics Canada is also forecasting a 3.2% decline the following month. June should be better, but the impact of the declines in the first two months of the quarter will be felt in the GDP. The vaccination campaign, the lifting of health restrictions in some provinces, accumulated savings and the Habs in the finals all point to a robust June for retailers.

- The White House reached an agreement with a bipartisan group on an infrastructure investment plan totaling nearly $1 trillion over 2 years. Previously, the Biden administration had put forward an ambitious $2.3 trillion plan. The agreement reached includes $579 billion in new spending and $394 billion in renewed funding for existing programs. Of the new money promised, $312 billion will be allocated to transportation projects and $266 billion to other types of infrastructure such as water and high-speed Internet. To fund these new projects, the agreement calls for deploying unused stimulus money already approved by Congress and selling off some of the strategic oil reserves.

It's not all plain sailing for Biden. Already, some Senate Democrats have objected to the deal, saying it is too small compared to the original proposal. Nancy Pelosi also wants to tie the passage of this bill only if there is also a deal on Biden's $1.8 trillion social and family plan. A bipartisan deal on the family plan is much less certain. For some Democrats, it's easy to get a deal when you concede almost everything to the other side.

- The G7 countries agreed to impose a minimum tax rate of 15% on corporations to eliminate the global race to the bottom. In addition, countries will have the option of taxing multinationals at a rate of 20% if they post profit margins of more than 10%. This agreement allows companies to be taxed on the basis of their sales in their country, rather than on the basis of their headquarters. Nearly 130 countries now support this proposal.

However, the definition of a multinational has not yet been clarified. With this agreement, the United States is also sending a message of global cooperation from Western countries that contrasts with the Trump era and displeases the Chinese, who are becoming more isolated on the world stage.

RATE TRENDS

- The Federal Reserve kept its policy rate at the floor and maintained the monthly pace of asset purchases at $120 billion. The Fed raised its inflation forecast from 2.4% to 3.4% for this year, but continues to insist that the rise in prices will be temporary, predicting that inflation will stabilize near 2% in subsequent years. The Fed reiterated its new monetary policy framework that strives to achieve average inflation of 2% over time. Employment is rising, but has not reached levels consistent with the Fed's assessment of full employment. Seven members of the committee now expect rates to rise next year, three more than in the March forecast. The Fed wants to gather more evidence that the recovery is well entrenched before announcing a reduction in its asset purchases.

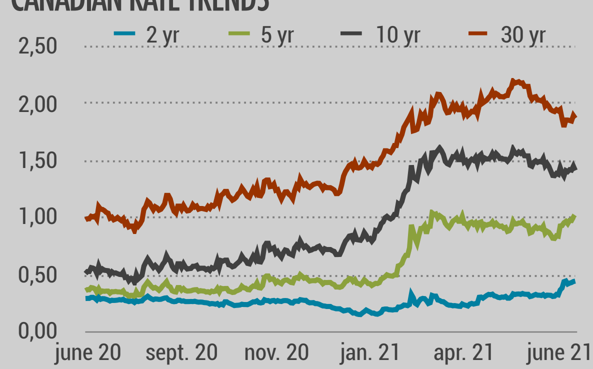
These rate forecasts represent the individual opinions of the committee members and not the final position of the Federal Reserve. Days after, Jerome Powell and John Williams (President of the New York Fed) gave speeches that sounded more dovish. Powell reiterated his confidence that the recent high inflation will be temporary and that the Fed will continue to support the economy. "Data and conditions have not improved sufficiently for the Fed to change its monetary policy stance of firmly supporting the economic recovery," Williams added.

BOND RATES

June 30, 2021	Canada	Monthly Change	Change 2021	United States	Monthly Change	Change 2021
Key Interest Rate	0,25 %	0,00 %	0,00 %	0,25 %	0,00 %	0,00 %
3 months	0,14 %	0,03 %	0,07 %	0,04 %	0,04 %	-0,02 %
2 years	0,45 %	0,13 %	0,25 %	0,25 %	0,11 %	0,13 %
5 years	0,98 %	0,08 %	0,59 %	0,89 %	0,09 %	0,53 %
10 years	1,39 %	-0,10 %	0,71 %	1,47 %	-0,13 %	0,55 %
30 years	1,84 %	-0,19 %	0,63 %	2,09 %	-0,20 %	0,44 %
RRB 30 years	0,12 %	-0,10 %	0,42 %			

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

Émetteurs	Credit Rating DBRS	Spread 5 yrs	Spread 10 yrs	Spread 30 yrs	Change 5 yrs month	Change 5 yrs 2021	Change 10 yrs month	Change 10 yrs 2021	Change 30 yrs month	Change 30 yrs 2021
Royal Bank, Bail-in-debt	AA	70	100	145	5	5	0	-5	0	-10
Royal Bank, NVCC	A	100	140	190	5	0	5	0	5	-5
Sun Life, subordinated debt	A	85	125	175	5	-5	5	-5	5	-10
Hydro One	A high	60	90	130	0	10	0	5	5	0
Enbridge Inc	BBB high	95	145	225	0	0	0	-5	0	-10
Altalink LP	A	60	85	125	0	10	0	5	5	0
GTAA	A high	60	90	130	-5	10	-5	5	-5	0
Bell Canada	BBB high	90	135	200	0	10	0	5	0	0
Rogers Communications	BBB high	105	150	220	0	25	0	20	0	20
Loblaw	BBB high	80	125	185	-5	5	-5	0	-5	-10
Canadian Tire	BBB	95	145	235	-5	0	-5	-10	-5	-20
Province Québec	AA low	26	54	76	-2	-4	-1	-3	4	-3
Province Ontario	AA low	31	60	80	-2	-4	-1	-2	4	-1
CMHC	AAA	23	31	---	0	2	0	-1		

Source: National Bank Financial

CREDIT MARKET

- New domestic corporate bond issuance totaled $15.7 billion in June, up $8.4 billion from the previous month and $8 billion more than in June 2020. For the first half of the year, bond financings totaled $63.4 billion, down 9.8% from last year. The month was particularly active in terms of number of issues, including 2 green or sustainable bond issues. Investor's appetite for this type of financing is strong. In the first six months of the year, green bonds issuance alone totaled $8 billion, the equivalent of all the green financing in Canada last year.
- Pembina Pipeline Corp and TC Energy Corp announced a plan to develop a transportation and carbon sequestration system in Alberta. This announcement comes a week after the five largest oil producers in Alberta also announced a carbon capture and storage project. According to the Pembina and TC Energy press release, the project will transport up to 20 million tonnes of CO2 per year, or about 10% of Alberta's current industrial emissions. The carbon dioxide would be sequestered in a geological reservoir near Fort Saskatchewan. According to the two companies, this location has the potential to store more than 2 billion tonnes of CO2. "This is one of the most promising emission reduction technologies, in terms of cost and proven environmental results," Alberta Environment Minister Jason Nixon praised in the release.
- Telus Corporation issued a 10-year, $750 million sustainability-linked bond under a framework established by the company earlier this year. In the framework, Telus committed to reduce its Scope 1 and 2 greenhouse gas emissions by 46% by 2030. In the event that Telus does not meet this target, the interest rate on this bond will increase by 1% to 3.85%. This would result in the Company paying $7.5 million in additional interest. The proceeds of this financing can be used for general corporate purposes, which is in contrast to green bonds where the use of funds is tied to specific environmental projects with specific reporting requirements.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	June 2021	2021
Universe	100 %	0,96 %	-3,46 %
Short Term	41,4 %	-0,20 %	-0,52 %
Mid Term	25,6 %	0,50 %	-3,00 %
Long Term	33,0 %	2,81 %	-7,37 %
Federal	34,0 %	0,53 %	-2,94 %
Provincial	37,4 %	1,48 %	-4,75 %
Corporates	26,4 %	0,78 %	-2,26 %
RRB		1,66 %	-4,03 %

Source: ftse.com

These carbon sequestration projects are part of all the scenarios and the solution to achieving carbon neutrality by 2050 as set out in the Paris Agreement. Canadian energy companies and the province of Alberta will now contribute to the fight against climate change, but additional efforts will also be required.

Unlike green bonds, this issue puts little additional burden on the company to meet its greenhouse gas reduction targets. In fact, since the funds can be used for general corporate purposes, there is no difference between this and other Telus bonds, except for the contractual penalty.

STRATEGIC POSITIONNING

Transitional or structural? That is the question many investors are asking about the inflationary pressures we have seen since the beginning of the year. The most recent reading of the U.S. consumer price index shows an annual growth rate of 3.8% in prices excluding energy and food, the highest since June 1992. Normally, such a price spike would have caused the Federal Reserve to react, but the new U.S. monetary policy framework favours a patient approach. However, some members of the Federal Reserve Committee do not deviate from the old, more proactive framework and would like to see a rate hike in 2023 or even 2022. Adopted almost a year ago, this new framework, which targets an average inflation rate of 2% over a long period, is not yet well understood. If the Fed wants to build credibility for its new approach, it cannot backtrack on its old ways at the first sign of inflation. The influential members of the committee, led by Chairman Powell, know that patience will be tested, but that it is necessary because they believe that the pressure on prices will be temporary and that a policy mistake would be costly to the economy. The longer the Fed takes to raise rates to establish credibility, the stronger the economic expansion will be and the "temporary" rise in prices could become more permanent. The Fed's new framework favors inflation, which will have to be priced in with higher long-term rates.