MONTHLY BOND LETTER

AlphaFixe Capital

FEBRUARY 2017

ECONOMIC EVENTS

- Canadian employment rose by 48,300 in January and by 276,100 on a year-over-year period. The majority of these jobs have been created since August with an average monthly increase of 40,000 jobs since then. Financial, Insurance and Real Estate industries reported the best performance in January (20,500) and last year (59,300). Therefore, the unemployment rate decreased to 6.8 % in Canada and 6.2 % in Quebec, an all-time low for the Province. Although job creation was low in Quebec in January (3,400), the Province is ranked first on the provincial podium with 97,100 new jobs in the last 12 months. However, manufacturing barely progressed in Quebec (-11,200 in 12 months) despite the weakness of the Canadian dollar.

The benefits of the depreciating currency on the Canadian economy is a thing of the past. The manufacturing industry in Quebec, Ontario and British Colombia should benefit from a weaker currency. However, these three provinces combined lost 12,400 manufacturing jobs in the last year.

- The U.S. consumer confidence index reached 114,8 in February, a record high since July 2001. Both consumers' Present Situation Index and the Expectations Index have improved. Americans who believe that jobs are hard to get has decreased to its lowest level in eight years to 20.3 %. On the other hand, 26.2 % of respondents believe that jobs are plentiful.

Some indicators show that the American economy is currently operating at full employment. Thus, the coming fiscal stimulus coupled with tighter immigration control should create wage pressures. Will companies absorb these costs through lower margins, or will they raise prices?

- Britain's economic growth accelerated at the end of 2016, from 2.4 % in the third quarter to 2.8 % in the fourth. In the year of the Brexit vote, the economy was able to grow by 1.8 % because of this rebound in activity. International trade and consumer spending contributed to growth while political uncertainty has undermined company's investment decisions.

The fall of the pound sterling since Brexit (-17%) contributed to growth in the second half of the year. How long can exporters sustain growth before inflation constrains household spending (60% of GDP)?

RATE TRENDS

- The Bank of Canada kept its key rate at 0.5 % at the end of their last meeting. The Bank was not worried about the rise in inflation rate (2.1 %) in January as they saw it as a temporary factor caused by energy prices. They still see significant excess capacity in the economy, which reduces inflationary pressures. Although the fourth quarter growth was stronger than expected (2.6 %), exporter's competitive challenges still worry the Bank.

The Bank's comment regarding exporters demonstrates again the importance of a weak currency in setting monetary policy. The Bank will continue to use its moral persuasion to keep the dollar within a 70 to 75 ¢ range.

- Foreign creditors of the United States have reduced their holdings of U.S. Treasury bonds by $ 342 billion US to $ 6,000 billion US at the end of 2016. Fifteen of the thirty largest foreign creditors have reduced their positions, including China, Japan, Saudi Arabia, Switzerland and Belgium. Foreigners are concerned about the inflation and expected deficits in the United States.

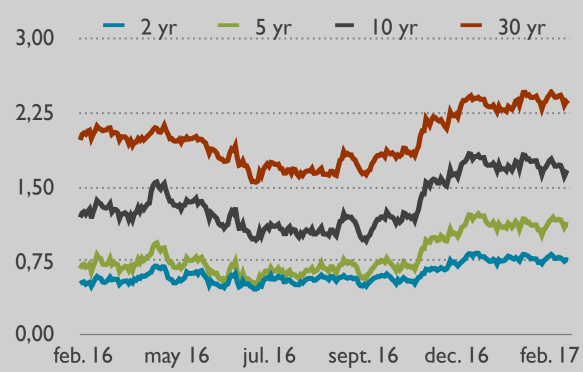
Which creditors will finance future Trump deficits? While foreigners reduce their positions, U.S. banks could reduce purchases, because they could no longer be subject to regulations forcing them to hold more liquid assets.

BOND RATES

Feb. 28 2017		Monthly Change	Change 2017		Monthly Change	Change 2017
Key Interest Rate	0,50 %	0,00 %	0,00 %	0,75 %	0,00 %	0,00 %
3 months	0,51 %	0,04 %	0,05 %	0,60 %	0,09 %	0,11 %
2 years	0,76 %	-0,01 %	0,01 %	1,26 %	0,06 %	0,07 %
5 years	1,12 %	0,00 %	0,00 %	1,93 %	0,02 %	0,00 %
10 years	1,64 %	-0,12 %	-0,09 %	2,39 %	-0,06 %	-0,05 %
30 years	2,34 %	-0,07 %	0,03 %	3,00 %	-0,07 %	-0,07 %
RRB 30 years	0,61 %	-0,03 %	0,12 %			

Source: Bloomberg

CANADIAN RATE TRENDS



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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-	85	100	145	5	-10	0	-10	5	-10
Manulife, Senior debt	A high	A+	105	130	180	5	-10	5	-5	5	-5
Fortis Inc.	BBB high	BBB+	110	155	210	5	-10	10	-10	15	-15
Hydro One	A high	A	75	100	140	5	-5	5	-5	0	-10
Enbridge Inc	BBB high	BBB+	125	170	225	5	-5	5	-10	0	-15
Encana Corp	BBB low	BBB	190	255	320	10	-25	10	-30	10	-25
GTAA	---	A+	70	90	125	5	0	5	-5	0	-10
Bell Canada	BBB high	BBB+	110	155	210	0	-5	5	-10	5	-15
Rogers Communications	BBB	BBB+	110	155	210	0	-5	5	-10	0	-25
Loblaw	BBB	BBB	110	155	210	0	-10	5	-15	5	-15
Canadian Tire	BBB high	BBB+	115	160	220	0	-10	5	-15	5	-10
Province of Québec	A high	A+	56	78	93	4	1	6	0	7	1
Province of Ontario	AA low	A+	57	78	90	4	1	5	-1	6	1
CMHC	AAA	AAA	40	48	---	0	2	1	0		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance totalled $ 6.7 billion in February, a decrease of $ 1 billion compared to the previous month and $ 300 million less than in February 2016. Since the beginning of the year, corporate issuance reached $ 14.3 billion, or 19 % more than in the same period last year. The automobile financing industry has been active during the last month with five issues from three issuers (BMW, Ford and Toyota) totalling $ 1.85 billion. Enercare Solutions also secured financing in February. This company offers monthly lease plans for water heaters, furnaces and air conditionings to more than 1.2 million customers, mainly in Ontario. Its business plan provides cash flow stability, an important factor for creditors.

- The British Columbia government announced a reduction to its anticipated budget surplus for this fiscal year (2016-17) from $ 2.2 billion to $ 1.5 billion. This change is mainly due to the real estate market slowdown in response to the new mortgage rules and taxes (15 %) applied on foreigners real estate transactions. For 2017-18, the Finance Minister expects a surplus of $ 295 million, a fifth consecutive surplus. This decrease corresponds to a rise of 2.2 % in projected spending while income remains stable. These estimates rely on economic growth of 2.1 % in 2017, which would bring debt to GDP ratio to 16.1 %, compared to 48.1 % for Quebec and 40.3 % for Ontario.

- On February 23, Quebec issued its first green bond, thus becoming the second province after Ontario to use such a vehicle to finance environmental projects. The $ 500 million loan will go towards the acquisition of Azur trains, metro system maintenance and purchase of hybrid buses. These projects will contribute to the increase of public transportation using mainly electricity. The Green bond program is based on the "Green Bond Principles" and CICERO Agency assigned the highest possible score through referrals and selection process. Responsible investors can therefore participate confidently in Quebec's Green Bond program.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Feb. 2017	2017
Universe	100 %	0,96 %	0,83 %
Short Term	44,6 %	0,33 %	0,54 %
Mid Term	23,8 %	1,08 %	1,27 %
Long Term	31,6 %	1,75 %	0,91 %
Federal	36,5 %	0,59 %	0,45 %
Provincial	33,9 %	1,30 %	0,77 %
Corporates	27,8 %	0,99 %	1,40 %
RRB		0,69 %	-1,09 %

Source: ftse.com

Though the budget is displaying electoral aspects just three months before the election, the Government is doing a good job of stimulating the economy, as BC will encounter headwinds shortly. The anticipated and desired real estate market slowdown should affect employment. Last year, the construction industries and the financial services were responsible for 20 % of the 82,000 new jobs.

In addition to offering a similar yield to conventional Quebec bonds, this program does not increase the public debt program as it is part of the budget plan already in place. This is a way of broadening the province's pool of creditors, as more and more investors are seeking responsible investments.

STRATEGIC POSITIONNING

The U.S. economy continues to show good performance with the unemployment rate (4.8 %) close to full employment. Of course, there is always a portion of Americans that could reintegrate the workforce, but they will have less economic impact. Therefore, fiscal stimulus and immigration controls should have an impact on company's salary structure. Will companies absorb some of these additional costs through lower profit margins or will they transfer them to consumers through higher prices? If margins are compressed, the stock market should reassess its enthusiasm. On the other hand, if prices are increased, inflation will continue its upward trajectory with its negative implications for bonds. Not surprisingly, the Federal Reserve is concerned about the upcoming stimulus at full employment. During her speech at the beginning of March, Janet Yellen telegraphed the Fed's intention to raise rates in March, indicating that monetary tightening would be justified if the economy continues to evolve according to expectations. The rise in bond yields is expected to continue this year, but Europe could again disrupt things as France prepares for elections and Italy could also surprise us with an election later this year.