MONTHLY BOND LETTER

AlphaFixe Capital

ECONOMIC EVENTS

APRIL 2017

- The Ontario Government has decided to tackle the soaring real estate prices by announcing a 15 % property tax to foreigners. Once adopted, this measure will be retroactive to April 21, 2017 and will be applied to the greater Toronto area. Moreover, the Government will contain rent increases to the inflation rate and will prohibit speculators from buying homes, prior to construction, in order to resell at a profit. Previously, there was no rent control for homes built after 1991. Last year, the average property price in the greater Toronto area increased by 20 % to $ 759 241 according to Royal Lepage.

Last August, British Columbia introduced this measure, prompting investors to move to Toronto. Return on investment is not the only factor for foreign buyers. In other words, the Chinese are looking for a better education system in a stable state without capital controls. Will these Toronto measures encourage foreigners to move to the Montreal area where the average price is half of Toronto's?

- Economic growth in the United States was disappointing in the first quarter, an increase of only 0.7 % on an annualized basis, the lowest in three years. This slowdown is explained in part by an inventory reduction that has cut off nearly 1 % in growth. Household spending also weakened, growing at their lowest pace since 2009 at 0.3 % compared to 3.5 % in the previous quarter. On a positive note, company investments have recovered with an increase of 9.4 %. The resumption of drilling activity in the energy sector is partly responsible.

For the past several years, growth in the first quarter appears to have seasonality problems, with average growth much lower than in other quarters. Nevertheless, the economy is doing better than GDP claims. The strength of the labor market should reinvigorate household spending.

- Japan's unemployment rate remained at 2.8 % in March, the lowest since June 1994. At the same time, there are currently 145 available jobs for 100 candidates, a 26-year record reflecting shortage in the labour market. This imbalance is partly explained by demographic factors, as one-third of the population is over 65 years of age. Nevertheless, wages remain contained, up only 0.4% annually.

Most hires over the past decade have been for non-regular jobs given the sluggishness of the Japanese economy. These positions have a lower salary without any benefits, thus justifying the low wage increases. However the situation may change.

RATE TRENDS

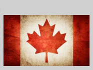
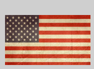
- According to the minutes following the Federal Reserve's meeting, "most committee members anticipated a steady increase in the policy rate that would continue during the year and that a change in the Fed's reinvestment policy would likely be suitable in late 2017 ". Members hope to reduce the size of the balance sheet gradually and predictably for investors.

Currently, investors barely believe in 3 hikes for 2017, only pricing a 40 % chance of a third hike by the end of the year. For investors, the Fed's balance sheet reduction does not appear to be in the cards and they may be surprised.

- The Bank of Canada maintained its key rate at 0.5 % in April. In a strengthened global economy, the Bank welcomes the high job numbers and the recovery in the oil sector. However, it prefers to wait before qualifying the recovery as sustainable, given uneven exports and sluggish corporate investment

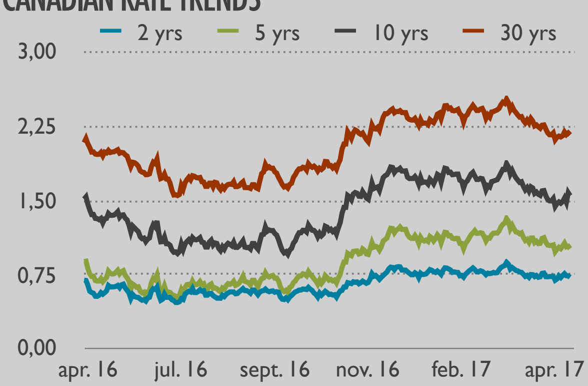
The Trump Administration's recent statements on softwood lumber, NAFTA, and milk should also be of concern to the Bank. In order to gain support against North Korea, the US shifts away from the trade deficit with China and weighs into Canada.

BOND RATES

Apr. 30 2017		Monthly Change	Change 2017		Monthly Change	Change 2017
Key Interest Rate	0,50 %	0,00 %	0,00 %	1,00 %	0,00 %	0,25 %
3 months	0,53 %	-0,02 %	0,07 %	0,79 %	0,04 %	0,29 %
2 years	0,72 %	-0,03 %	-0,03 %	1,26 %	0,01 %	0,07 %
5 years	1,01 %	-0,11 %	-0,10 %	1,81 %	-0,11 %	-0,11 %
10 years	1,55 %	-0,08 %	-0,17 %	2,28 %	-0,11 %	-0,16 %
30 years	2,16 %	-0,14 %	-0,15 %	2,95 %	-0,06 %	-0,11 %
RRB 30 years	0,55 %	-0,12 %	0,06 %			

Source: Bloomberg

CANADIAN RATE TRENDS



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CREDIT BOND RISK PREMIUMS

ISSUER	Credit rating		Spread			Change 5 yrs		Change 10 yrs		Change 30 yrs	
	DBRS	S&P	5 yrs	10 yrs	30 yrs	month	2017	month	2017	month	2017
Royal Bank, deposit notes	AA	AA-	80	100	145	0	-15	-5	-10	0	-10
Manulife, Senior debt	A high	A+	100	130	180	0	-15	0	-5	0	-5
Fortis Inc.	BBB high	BBB+	95	135	175	-10	-25	-10	-30	-15	-50
Hydro One	A high	A	70	90	125	-5	-10	-5	-15	-15	-25
Enbridge Inc	BBB high	BBB+	120	160	215	-5	-10	-10	-20	-15	-25
Encana Corp	BBB low	BBB	165	220	290	-20	-50	-30	-65	-25	-55
GTAA	---	A+	60	80	115	-5	-10	-5	-15	-5	-20
Bell Canada	BBB high	BBB+	100	145	200	-15	-15	-10	-20	-10	-25
Rogers Communications	BBB	BBB+	100	140	200	-10	-15	-10	-25	-15	-35
Loblaw	BBB	BBB	100	145	195	-10	-20	-5	-25	-10	-30
Canadian Tire	BBB high	BBB+	105	150	210	-10	-20	-5	-25	-5	-20
Province of Québec	A high	A+	52	74	88	-1	-3	0	-4	0	-4
Province of Ontario	AA low	A+	54	76	87	-1	-2	0	-3	0	-2
CMHC	AAA	AAA	36	48	---	-3	-2	0	0		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance totalled $ 6.4 billion in April, a $ 3.1 billion increase compared to the previous month and $ 1.4 billion more than in April 2016. Since the beginning of the year, corporate issuance reached $ 29.9 billion, 22 % more than in the same period last year. Investor's acceptance of the Bank of America issue last month paved the way for two other US banks in April. Indeed, Wells Fargo and Goldman Sachs borrowed a total of $ 2.75 billion for a 5-year term each, with a two-day interval between their respective issues.

- S&P downgraded Home Capital Group's (HCG) credit rating from BBB to B- while maintaining a negative outlook. The HCG saga began when the Ontario Securities Commission accused the company's management of cheating investors by accepting falsified applications from some of their mortgage brokers. Having lost depositors confidence, HCG was faced with a liquidity problem that forced it to obtain a $ 2 billion line of credit with a 10% interest rate with Healthcare of Ontario Pension Plan. Under the agreement, HCG would be required to pay a commitment fee of $ 100 million and use at least $ 1 billion at the opening of the line. The unused amount of the line of credit would still cost 2.5% in interest charges. In summary, the cost of this credit facility in the first year will be at least $ 250 million for the company, which reported annual net income of $ 263 million in 2016.

- After a 9 year deficit, the Ontario government has reported a balanced budget for the fiscal year of 2017-18, fulfilling the promise made in 2011 by the Finance Minister Dwight Duncan. Because of a more favorable economic environment last year, the deficit was $ 1.5 billion, an improvement of $ 1.3 billion compared to last year's forecast. The province expects a revenue growth of 3.9 % annually over the next 3 years and 3.3 % for expenses. Nevertheless, a larger proportion of these expenditures will be made in the current fiscal year (+ 4.7 %) in preparation for the 2018 elections. The province hopes to reduce the debt-to-GDP ratio to 35 % by 2023-24, compared to 37.8 % currently.

PERFORMANCE FTSE TMX INDEX

Sector	Weight	apr. 17	2017
Universe	100 %	1,43 %	2,69 %
Short Term	44,6 %	0,40 %	1,07 %
Mid Term	22,6 %	1,40 %	2,89 %
Long Term	32,7 %	2,92 %	4,85 %
Federal	37,0 %	1,00 %	1,65 %
Provincial	34,0 %	1,82 %	3,23 %
Corporates	27,1 %	1,53 %	3,38 %
RRB		2,11 %	0,80 %

Source: ftse.com

Within a few weeks, there were 7 credit rating downgrades, so an investment decision based solely on the opinion of a credit agency was risky. Perhaps a business model based on granting mortgages to unqualified borrowers did not deserve such a high credit rating.

Unlike Quebec and British Columbia, Ontario does not have a Fund with the objective of reducing the province's debt. As the current situation allows, Ontario could benefit from it in order to gather ammunitions in preparation for tougher days.

STRATEGIC POSITIONNING

Investor confidence in Trump's economic plan faded again. The tax reform, which seemed to be a formality for the Republicans, appears as a new source of internal conflict. While investors were too optomistic up following the US election, despite government stimulus, the economy was already doing well while employment is near its equilibrium level. In fact, the United States is no longer the only country with a bright economic picture. Apart from the overvalued risks of Le Pen's election in France, Europe is showing encouraging signs with 2.5% credit growth in the private sector, the highest rate since July 2009. The Chinese economy should also behave well through the fall when President Xi Jinping should be crowned head of the country for a second five-year term after the Communist Party 19th Congress. Japan is also improving, notably in terms of employment, a sign that activity is flourishing. All in all, the global economy is improving and synchronizing, which is a milestone for a recovery in inflation and higher interest rates. The only shadow remains the geopolitical risks, notably North Korea. Since it is impossible to predict the actions of a disturbed leader, we prefer focusing primarily on fundamental analysis.