

Bank of Canada Statement Summary and Commentary: In a widely expected move the Bank of Canada (the “Bank”) left its target for the overnight rate unchanged at 5.00%, where it has been since July 2023. The Bank made no comments on the future direction of interest rates, opting to keep all options open. The Bank stated that it is “still concerned about risks to the outlook for inflation, particularly the persistence in underlying inflation. Governing Council wants to see further and sustained easing in core inflation and continues to focus on the balance between demand and supply in the economy, inflation expectations, wage growth, and corporate pricing behaviour.”

In what we feel is a change from the prior month’s negative commentary on economic growth, the Bank commented that “In Canada, the economy grew in the fourth quarter by more than expected, although the pace remained weak and below potential. Real GDP expanded by 1% after contracting 0.5% in the third quarter. Consumption was up a modest 1%, and final domestic demand contracted with a large decline in business investment. A strong increase in exports boosted growth.”

With respect to inflation, the Bank stated that “CPI inflation eased to 2.9% in January, as goods price inflation moderated further. Shelter price inflation remains elevated and is the biggest contributor to inflation. Underlying inflationary pressures persist: year-over-year and three-month measures of core inflation are in the 3% to 3.5% range, and the share of CPI components growing above 3% declined but is still above the historical average. The Bank continues to expect inflation to remain close to 3% during the first half of this year before gradually easing.”

Market reaction to the well anticipated announcement was modest in the bond market. The Canadian dollar gained strength from 0.7383 to 0.7388 versus the US dollar.

Goodwood Portfolio Reaction: The Bank of Canada’s “no-change” interest rate announcement was well anticipated by the market. In its last interest rate announcement, the Bank stated that it expects growth in Canada to slow to close to zero through the first quarter of 2024 and grow at 0.8% for all of 2024. We note that February’s Q4 2023 GDP release was stronger than forecast at 1.0% Q/Q annualized vs 0.8% Q/Q annualized estimate and Q3 annualized was revised upwards from -1.1% to -0.5%.

Goodwood’s fixed-income portfolios have been positioned at the shorter end of the yield curve, where market yields are higher due to the inverted yield curve. In anticipation of potential rate cuts in the spring, we have been extending the duration of our portfolios. We believe higher coupon new issue corporate bonds are an excellent way to achieve this. Goodwood employs a flexible and tactical approach to duration positioning, allowing us to reduce or extend duration where we see opportunities.

Goodwood Fixed-Income Strategies: Goodwood uses a disciplined, bottom-up, and fundamental approach in analyzing Canadian investment-grade corporate bonds. The investment-grade portfolios seek to preserve capital and provide a high cash coupon income. We have been adding current new issues to the portfolios with cash coupons in the 4.50% to 5.25% per annum range. In addition, we believe bonds in our portfolios may outperform as a result of spread tightening from improving company and industry fundamentals. Our strategies are well diversified by position size, industry sectors and term-to-maturity. Goodwood’s flexible, tactical approach can capitalize on inefficiencies in the fixed-income markets. The long-only investment-grade bond mandate invests in 20-30 fixed-income securities. Similar Long-Short mandate: [Goodwood Milford Fund](#). Goodwood also acts as sub-advisor, managing [investment grade bond](#) and [ESG conscious investment grade bond](#) mandates for third-party clients, institutions, pensions and endowments.

Historical Interest Rate Trend and Forecast:

Quarter	BOC	3M	2Y	5Y	10Y	30Y	FED	3M	2Y	5Y	10Y	30Y
Q1'23	4.50	4.38	3.73	3.02	2.90	3.00	5.00	4.64	4.03	3.58	3.47	3.65
Q2'23	4.75	4.91	4.58	3.68	3.27	3.09	5.25	5.30	4.90	4.16	3.84	3.86
Q3'23	5.00	5.37	4.87	4.25	4.02	3.81	5.50	5.45	5.05	4.61	4.57	4.70
Q4'23	5.00	5.32	3.89	3.17	3.11	3.03	5.50	5.34	4.25	3.85	3.88	4.03
Q1'24	5.00	4.95	4.10	3.50	3.50	3.40	5.50	5.40	4.50	4.20	4.20	4.30
Q2'24	4.75	4.70	3.85	3.30	3.40	3.25	5.50	5.35	4.40	4.05	4.10	4.20
Q3'24	4.50	4.45	3.60	3.10	3.10	3.15	5.25	5.10	4.00	3.80	4.00	4.10

Actual Forecast Sources: Historical: Bloomberg; Forecast: Goodwood Inc.

Corporate Spread (i.e., premium over government bonds) Trend and Forecast:

Corporate bond spreads have tightened by 5-15 basis points over equivalent term Government of Canada bond yields since the last Bank of Canada announcement on January 24, 2024.

Recent Investment-Grade Additions to Portfolios:

Fining International Inc 4.778% 02/13/2029
 TMX Group Limited 4.836% 02/18/2032
 Ford Credit Canada 5.668% 02/20/2032
 Rogers Communications Inc 4.25% 04/15/2032

Recent Investment-Grade Deletions from Portfolios:

Rogers Communications Inc 4.35% 01/31/2024 [matured]
 Province of British Columbia C 3.55% 06/18/2033 [sold]

Strategy	Effective Duration*	Yield to Maturity*
Goodwood Investment-Grade Bonds	2.8	5.0
Goodwood ESG-Conscious Investment-Grade Bonds	3.4	4.8
Goodwood Milford Fund	2.9	4.3
iShares Core Canadian Universe Bond ETF	7.2	4.3
iShares Canadian Corporate Bond ETF	5.7	5.0

Available through Goodwood Inc.
 Sources: Goodwood Inc., iShares by Blackrock *As at February 29, 2024. See full disclosure on page 2.

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