

**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 press release gives the impression that the Bank feels that inflation is trending in the right direction, but they remain data-dependent. The Bank stated, “While inflation is still too high and risks remain, CPI and core inflation have eased further in recent months. The Council will be looking for evidence that this downward momentum is sustained. Governing Council is particularly watching the evolution of core inflation, and continues to focus on the balance between demand and supply in the economy, inflation expectations, wage growth, and corporate pricing behaviour.”

Regarding CPI, the Bank stated that “CPI inflation slowed to 2.8% in February, with easing in price pressures becoming more broad-based across goods and services. However, shelter price inflation is still very elevated, driven by growth in rent and mortgage interest costs. Core measures of inflation, which had been running around 3½%, slowed to just over 3% in February, and 3-month annualized rates are suggesting downward momentum. The Bank expects CPI inflation to be close to 3% during the first half of this year, move below 2½% in the second half, and reach the 2% inflation target in 2025.”

The Bank’s view on the economy is strong – no slowdown or recession anymore. They stated, “Overall, the Bank forecasts GDP growth of 1.5% in 2024, 2.2% in 2025, and 1.9% in 2026.” Additionally, they said, “Economic growth is forecast to pick up in 2024. This largely reflects both strong population growth and a recovery in spending by households. The contribution to growth from spending by governments has also increased.”

The bond market’s reaction to the announcement was negative, with prices down and yields up. We feel the market is looking at the stronger growth economic projections, viewing them as negative for potential rate cuts.

**Goodwood Portfolio Reaction:** The Bank of Canada’s “no-change” interest rate announcement was well anticipated by the market. While the Bank was positive on inflation moving towards 2%, the market sold off on the strong GDP estimates put forward in the press release and described above.

Goodwood’s fixed-income portfolios have been strategically positioned at the shorter end of the yield curve, where market yields are higher due to the inverted yield curve. We have been selectively extending the duration of our portfolios where we see corporate bond opportunities, believing that higher coupon new issue corporate bonds are an excellent way to achieve this. Our flexible and tactical approach to duration positioning allows 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 | 5.01 | 4.19 | 3.54 | 3.47 | 3.36 | 5.50 | 5.36 | 4.62 | 4.21 | 4.19 | 4.34 |
| Q2'24   | 5.00 | 5.00 | 3.90 | 3.50 | 3.55 | 3.50 | 5.50 | 5.40 | 4.80 | 4.25 | 4.30 | 4.50 |
| Q3'24   | 4.75 | 4.75 | 3.70 | 3.40 | 3.50 | 3.45 | 5.25 | 5.15 | 4.60 | 4.10 | 4.15 | 4.35 |
| Q4'24   | 4.50 | 4.50 | 3.50 | 3.20 | 3.40 | 3.40 | 5.00 | 4.90 | 4.40 | 3.85 | 3.90 | 4.10 |

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

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

Corporate bond spreads are unchanged to 10 basis points tighter over equivalent term Government of Canada bond yields since the last Bank of Canada announcement on March 6, 2024.

## Recent Investment-Grade Additions to Portfolios:

Metro Inc 3.39% 12/06/2027

## Recent Investment-Grade Deletions from Portfolios:

Alimentation Couch-Tard Inc 3.6% 06/02/2025 [sold]

| Strategy                                      | Effective Duration* | Yield to Maturity* |
|---|---------------------|--------------------|
| Goodwood Investment-Grade Bonds               | 2.7                 | 5.1                |
| Goodwood ESG-Conscious Investment-Grade Bonds | 3.4                 | 4.9                |
| Goodwood Milford Fund                         | 2.9                 | 4.3                |
| iShares Core Canadian Universe Bond ETF       | 7.1                 | 4.4                |
| iShares Canadian Corporate Bond ETF           | 5.7                 | 5.1                |

Available through Goodwood Inc.  
Sources: Goodwood Inc., iShares by Blackrock \*As at March 31, 2024. See full disclosure on page 2.

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