Federal Open Market Committee Statement Summary and Commentary: In a widely expected move today the US Federal Open Market Committee (the “FOMC”) decided to maintain the target range for the federal funds rate at 5.25% to 5.5%. The FOMC stated that “Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.”

Significantly the FOMC added this sentence to the opening paragraph “In recent months, there has been a lack of further progress toward the Committee’s 2 percent inflation objective.” The FOMC noted that it will continue to be data dependent.

The FOMC also announced that it will reduce the amount of securities it purchases monthly. The FOMC set out the new targets by stating “Beginning in June, the Committee will slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from $60 billion to $25 billion. The Committee will maintain the monthly redemption cap on agency debt and agency mortgage-backed securities at $35 billion and will reinvest any principal payments in excess of this cap into Treasury securities.”

Goodwood Portfolio Reaction: The FOMC “no-change” interest rate announcement was well anticipated by the market. Fixed-income markets have been negatively impacted recently by inflation data that has been stronger than expected. On April 10, US core CPI data showed a very strong year-over-year increase of 3.8% for March (equal to February’s number) which was well above the market’s expectations. Later in April, core PCE inflation for March came in at 2.8%, unchanged from February. The bond market continues to adjust to the possibility that inflation is not on a steady downward trend towards the FOMC’s target of 2%. Higher inflation above the FOMC’s target of 2% and a very uncertain path towards 2% gives the FOMC less room for rate cuts. Market forecasts of the number of rate cuts fell in April. The CME FedWatch tool is one model that measures market estimates of probabilities of rate movements at FOMC meetings. It has shown a marked change regarding forecasted near term cuts at upcoming FOMC meetings. The June meeting is now expected to experience no cuts. The probability of no cuts at the July meeting, according to the CME model, has gone from approximately 25% a month ago to approximately 70% currently.

During the first quarter of 2024, Goodwood’s three fixed-income mandates outperformed the broader fixed-income market. We still anticipate one or two interest rate cuts in 2024. We view a 50/50 chance of a rate cut in September, followed by one cut in December after the US Presidential election. Goodwood has been selectively buying corporate bond new issues with coupons between 4.5% and 5% with terms of 3-7 years which has the effect of extending our short-term portfolio duration. 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. Our investment-grade portfolios seek to preserve capital and provide a high cash coupon income. We have added new issues to the portfolios with cash coupons in the 4.5% to 5.0% per annum range. In addition, our bond portfolios may also provide an opportunity for enhanced returns due to spread tightening (bond price appreciation) 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. 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	FED	3M	2Y	5Y	10Y	30Y
Q1'23	5.00	4.64	4.03	3.58	3.47	3.65
Q2'23	5.25	5.30	4.90	4.16	3.84	3.86
Q3'23	5.50	5.45	5.05	4.61	4.57	4.70
Q4'23	5.50	5.34	4.25	3.85	3.88	4.03
Q1'24	5.50	5.36	4.62	4.21	4.19	4.34
Q2'24	5.50	5.40	5.00	4.65	4.60	4.70
Q3'24	5.50	5.30	4.90	4.60	4.50	4.65
Q4'24	5.25	5.00	4.70	4.35	4.30	4.55

BOC	3M	2Y	5Y	10Y	30Y
4.50	4.38	3.73	3.02	2.90	3.00
4.75	4.91	4.58	3.68	3.27	3.09
5.00	5.37	4.87	4.25	4.02	3.81
5.00	5.32	3.89	3.17	3.11	3.03
5.00	5.01	4.19	3.54	3.47	3.36
5.00	4.90	4.20	3.80	3.75	3.60
4.75	4.70	3.90	3.70	3.60	3.50
4.50	4.50	3.70	3.60	3.50	3.40

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

Goodwood C$ Fixed-Income Strategies:

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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