

**Bank of Canada Statement Summary and Commentary:** In a move that had popular support the Bank of Canada (the “Bank”) cut its target rate for the overnight rate by 25 basis points to 4.75%. The Bank stated “With continued evidence that underlying inflation is easing, Governing Council agreed that monetary policy no longer needs to be as restrictive and reduced the policy interest rate by 25 basis points. Recent data has increased our confidence that inflation will continue to move towards the 2% target.”

Regarding CPI, the Bank stated that “CPI inflation eased further in April, to 2.7%. The Bank’s preferred measures of core inflation also slowed and three-month measures suggest continued downward momentum. Indicators of the breadth of price increases across components of the CPI have moved down further and are near their historical average. However, shelter price inflation remains high.”

The Bank commented on the Canadian economy as follows “In Canada, economic growth resumed in the first quarter of 2024 after stalling in the second half of last year. At 1.7%, first-quarter GDP growth was slower than forecast in the MPR. Weaker inventory investment dampened activity. Consumption growth was solid at about 3%, and business investment and housing activity also increased. Labour market data show businesses continue to hire, although employment has been growing at a slower pace than the working-age population. Wage pressures remain but look to be moderating gradually. Overall, recent data suggest the economy is still operating in excess supply.”

The bond market reaction to the announcement was moderate with the largest drop in yields in the 10 year term at 5 basis points, 5 year yields fell 4 basis points and 2 year yields fell 2 basis points. The Canadian dollar fell by one quarter of a cent.

**Goodwood Portfolio Reaction:** The Bank’s 25 basis points interest rate cut was well anticipated judging by the muted price reaction in bonds. Futures based forecasting models are currently suggesting the next 25 basis points cut will be in September followed by one more 25 basis points cut in December.

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
Q1'23	4.50	4.38	3.73	3.02	2.90	3.00
Q2'23	4.75	4.91	4.58	3.68	3.27	3.09
Q3'23	5.00	5.37	4.87	4.25	4.02	3.81
Q4'23	5.00	5.32	3.89	3.17	3.11	3.03
Q1'24	5.00	5.01	4.19	3.54	3.47	3.36
Q2'24	4.75	4.70	4.00	3.45	3.40	3.30
Q3'24	4.50	4.55	3.75	3.30	3.30	3.20
Q4'24	4.25	4.30	3.50	3.20	3.20	3.10

FED	3M	2Y	5Y	10Y	30Y
5.00	4.64	4.03	3.58	3.47	3.65
5.25	5.30	4.90	4.16	3.84	3.86
5.50	5.45	5.05	4.61	4.57	4.70
5.50	5.34	4.25	3.85	3.88	4.03
5.50	5.36	4.62	4.21	4.19	4.34
5.50	5.40	4.75	4.40	4.30	4.50
5.50	5.30	4.65	4.30	4.20	4.40
5.25	5.00	4.40	4.20	4.00	4.20

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

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

Corporate bond spreads are 5 to 10 basis points tighter over equivalent term Government of Canada bond yields since the last Bank of Canada announcement on April 10, 2024.

Strategy	Effective Duration*	Yield to Maturity*
Goodwood Investment-Grade Bonds	3.1	5.0
Goodwood ESG-Conscious Investment-Grade Bonds	3.9	4.9
Goodwood Milford Fund	3.2	4.4
iShares Core Canadian Universe Bond ETF	7.1	4.3
iShares Canadian Corporate Bond ETF	5.7	5.1

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

### Recent Investment-Grade Additions to Portfolios:

Altogas Ltd 4.672% 01/08/2029  
Bell Canada 5.15% 08/24/2034  
Cameco Corp 4.94% 05/24/2031  
Granite REIT Holdings 6.074% 04/12/2029  
Intact Financial Corp 4.653% 05/16/2029  
Loblaw Co 4.488% 12/11/2028  
Manulife Bank 4.546% 03/08/2029  
McDonald’s Corp 4.857% 05/21/2031  
Telus Corp 4.95% 02/18/2031

### Recent Investment-Grade Deletions from Portfolios:

Altogas Ltd 4.638% 05/15/2026 [sold]  
George Weston Ltd 4.115% 06/17/2024 [sold]  
McDonald’s Corp 3.13% 03/04/2025 [sold]  
Telus Corp 3.75% 01/17/2025 [sold]  
Toronto Dominion 4.344% 01/27/2026 [sold]

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