

Bank of Canada Statement Summary and Commentary: The Bank of Canada (the “Bank”) today cut its policy rate by 25 basis points to 2.75%. The Bank stated that “While economic growth has come in stronger than expected, the pervasive uncertainty created by continuously changing US tariff threats is restraining consumers’ spending intentions and businesses’ plans to hire and invest. Against this background, and with inflation close to the 2% target, Governing Council decided to reduce the policy rate by a further 25 basis points.”

Regarding inflation, the Bank stated “Inflation remains close to the 2% target. The temporary suspension of the GST/HST lowered some consumer prices, but January’s CPI was slightly firmer than expected at 1.9%. Inflation is expected to increase to about 2½% in March with the end of the tax break. The Bank’s preferred measures of core inflation remain above 2%, mainly because of the persistence of shelter price inflation. Short-term inflation expectations have risen in light of fears about the impact of tariffs on prices.”

The Bank’s comments on the economy, “Canada’s economy grew by 2.6% in the fourth quarter of 2024 following upwardly revised growth of 2.2% in the third quarter. This growth path is stronger than was expected at the time of the January MPR. Past cuts to interest rates have boosted economic activity, particularly consumption and housing.”

Regarding tariffs, the Bank stated “economic growth in the first quarter of 2025 will likely slow as the intensifying trade conflict weighs on sentiment and activity. Recent surveys suggest a sharp drop in consumer confidence and a slowdown in business spending as companies postpone or cancel investments. The negative impact of slowing domestic demand has been partially offset by a surge in exports in advance of tariffs being imposed.”

Goodwood Portfolio Reaction: The Bank’s 25 basis point cut in the policy rate loosens Canadian financial conditions further. With the turmoil and economic and political uncertainty arising from the Trump tariffs, we believe the Bank’s rate cut was justified. Recall as well, that at the Bank’s last meeting they announced they were stopping quantitative tightening and moving to quantitative easing. Bank Governor Macklem has been very vocal about the potential negative economic effects he sees arising from the US tariff policies. In reaction the Canadian dollar was unchanged while in the bond markets prices fell from 5 bps to 10 bps. Our portfolios are diversified between various industries and our maturity structure is currently tilted towards short (1-2 year) and mid (3-7 year) bonds. We feel this portfolio structure gives our portfolios a defensive stance in this volatile environment.

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 appreciate 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
Q1'24	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	4.75	4.66	4.00	3.52	3.51	3.40	5.50	5.36	4.72	4.33	4.34	4.50
Q3'24	4.25	3.94	2.91	2.74	2.96	3.14	4.75	4.63	3.65	3.58	3.80	4.13
Q4'24	3.25	3.20	2.94	2.97	3.24	3.34	4.50	4.33	4.25	4.39	4.58	4.78
Q1'25	2.75	2.60	2.50	2.60	2.90	3.20	4.50	4.30	4.00	4.00	4.30	4.65
Q2'25	2.50	2.40	2.30	2.40	2.80	3.25	4.25	4.05	3.80	3.90	4.30	4.60
Q3'25	2.25	2.30	2.25	2.30	2.75	3.25	4.25	4.00	3.90	4.10	4.40	4.70
Q4'25	2.25	2.30	2.20	2.40	2.80	3.30	4.25	4.15	4.00	4.10	4.50	4.80

Actual Forecast Sources: Historical: LSEG; Forecast: Goodwood Inc., internal forecast used to position our Goodwood bond portfolios

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

Corporate bond spreads are 5 to 10 basis points wider over equivalent term Government of Canada bond yields since the last Bank of Canada announcement on January 29, 2025.

Recent Investment-Grade Additions to Portfolios:

- BCIMC 3.0% 03/31/2027
- Energir LP 3.04% 02/09/2032
- Fortis Inc. 4.171% 09/09/2031
- Ontario Power Generation 4.831% 06/28/2034
- Province of BC 3.55% 06/18/2033
- EDF S.A. 4.573% 02/06/2035
- Teranet Holdings LP 4.641% 03/07/2032
- US Treasury 4.25% 01/31/2030
- US Treasury 4.25% 01/15/2028
- US Treasury 4.125% 01/31/2027
- Waste Connections, Inc. 4.50% 06/14/2029

Recent Investment-Grade Deletions from Portfolios:

- ATS Corporation 6.50% 08/21/2032 [sold]
- Empire Communities Corp 7.625% 11/01/2029 [sold]
- Finning 4.778% 02/13/2029 [sold]
- Go Easy 6.0% 05/15/2030 [sold]
- Magna International 4.95% 01/31/2031 [sold]
- Mattr Corp. 7.25% 04/02/2032 [sold]
- Rogers 5.625% 04/15/2055 [sold]
- Sleep Country Canada 6.625% 11/28/2032 [sold]
- Stella-Jones Inc 4.312% 10/01/2031 [sold]
- TDB TD F/F 5.909%/30 01/31/2085 [sold]
- Wolf Midstream Canada LP 5.95% 07/18/2033 [sold]

Strategy	Effective Duration*	Yield to Maturity*
Goodwood Investment-Grade Bonds	4.7	3.7
Goodwood ESG-Conscious Investment-Grade Bonds	3.9	3.6
Goodwood Milford Fund	5.7	4.9
iShares Core Canadian Universe Bond ETF	7.3	3.4
iShares Canadian Corporate Bond ETF	5.7	4.0

Available through Goodwood Inc.

Sources: Goodwood Inc., iShares by Blackrock *As at February 28, 2025. See full disclosure below.

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