

Bank of Canada Statement Summary and Commentary: The Bank of Canada (the “Bank”) cut rates again with a 25 basis points cut in its target rate for the overnight rate to 4.50%. The Bank stated “With broad price pressures continuing to ease and inflation expected to move closer to 2%, Governing Council decided to reduce the policy interest rate by a further 25 basis points. Ongoing excess supply is lowering inflationary pressures.”

Regarding CPI, the Bank stated that “CPI inflation moderated to 2.7% in June after increasing in May. Broad inflationary pressures are easing. The Bank’s preferred measures of core inflation have been below 3% for several months and the breadth of price increases across components of the CPI is now near its historical norm. Shelter price inflation remains high, driven by rent and mortgage interest costs, and is still the biggest contributor to total inflation. The Bank’s preferred measures of core inflation are expected to slow to about 2½% in the second half of 2024 and ease gradually through 2025. The Bank expects CPI inflation to come down below core inflation in the second half of this year, largely because of base year effects on gasoline prices. As those effects wear off, CPI inflation may edge up again before settling around the 2% target next year.”

The Bank commented on the Canadian economy as follows “In Canada, economic growth likely picked up to about 1½% through the first half of this year. However, with robust population growth of about 3%, the economy’s potential output is still growing faster than GDP, which means excess supply has increased. Household spending, including both consumer purchases and housing, has been weak. There are signs of slack in the labour market. The unemployment rate has risen to 6.4%. GDP growth is forecast to increase in the second half of 2024 and through 2025. This reflects stronger exports and a recovery in household spending and business investment as borrowing costs ease. Residential investment is expected to grow robustly. With new government limits on admissions of non-permanent residents, population growth should slow in 2025. Overall, the Bank forecasts GDP growth of 1.2% in 2024, 2.1% in 2025, and 2.4% in 2026.”

The bond market reaction to the announcement was positive with an approximate 5-15 basis points drop in yields in the 5 year and longer maturities. The Canadian dollar fell by one eighth of a cent.

Goodwood Portfolio Reaction: The Bank’s 25 basis points rate cut was well anticipated by the market after the very encouraging CPI data released on July 16 which indicated annualized CPI fell from the prior months 2.9% to 2.7%. Earlier in July we saw the unemployment rate climb from 6.2% to 6.4%. Goodwood’s forecast is for two additional 25 basis points rate cuts in October and December.

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	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	4.50	4.40	3.85	3.35	3.35	3.35	5.25	5.10	4.60	4.20	4.20	4.40
Q4'24	4.00	3.90	3.60	3.15	3.20	3.20	5.00	4.85	4.40	4.00	4.05	4.25

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

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

Corporate bond spreads are 0 to 10 basis points tighter over equivalent term Government of Canada bond yields since the last Bank of Canada announcement on June 5, 2024.

Strategy	Effective Duration*	Yield to Maturity*
Goodwood Investment-Grade Bonds	3.6	4.9
Goodwood ESG-Conscious Investment-Grade Bonds	4.1	4.8
Goodwood Milford Fund	3.1	3.5
iShares Core Canadian Universe Bond ETF	7.2	4.3
iShares Canadian Corporate Bond ETF	5.8	5.0

Available through Goodwood Inc.

Sources: Goodwood Inc., iShares by Blackrock *As at June 30, 2024. See full disclosure on page 2.

Recent Investment-Grade Additions to Portfolios:

BMW Canada Inc 4.41% 02/10/2027
 Hyundai Motor 4.895% 01/31/2029
 John Deere 2.81% 01/19/2029
 Magna International 4.95% 01/31/2031
 Mondelēz International, Inc 4.625% 07/03/2031
 OPG 4.831% 06/28/2034
 Province of B.C. US\$ 2.25% 06/02/2026
 Province of Ontario 2.30% 06/15/2026
 RBC 4.632% 05/01/2028
 SmartCentres REIT 5.162% 08/01/2030
 Transcanada Pipelines Ltd 2.97% 06/09/2031
 Veren Inc. 5.503% 06/21/2034
 Waste Connections, Inc. 4.50% 06/14/2029

Recent Investment-Grade Deletions from Portfolios:

Altgas Ltd 4.672% 01/08/2029 [sold]
 BMW Canada 4.76% 02/10/2025 [sold]
 Caterpillar Financial Services Ltd 5.19% 09/25/2026 [sold]
 CNH Industrial Capital Canada Ltd 5.50% 08/11/2026 [sold]
 Mercedes Benz Finance Canada Inc 5.14% 06/29/2026 [sold]
 RBC 5.235% 11/02/2026 [sold]
 Suncor Energy 5.60% 11/17/2025 [sold]
 Transcanada Pipelines Ltd 5.419% 03/10/2026 [sold]

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