

**Bank of Canada Statement Summary and Commentary:** The Bank of Canada (the “Bank”) cut rates by 50 basis points its second “jumbo” cut of this cycle. The Bank stated, “With inflation around 2%, the economy in excess supply, and recent indicators tilted towards softer growth than projected, Governing Council decided to reduce the policy rate by a further 50 basis points to support growth and keep inflation close to the middle of the 1-3% target range.”

Regarding CPI, the Bank noted “CPI inflation has been about 2% since the summer, and is expected to average close to the 2% target over the next couple of years.”

The Bank’s comments on the economy, “In Canada, the economy grew by 1% in the third quarter, somewhat below the Bank’s October projection, and the fourth quarter also looks weaker than projected. Third-quarter GDP growth was pulled down by business investment, inventories and exports. In contrast, consumer spending and housing activity both picked up, suggesting lower interest rates are beginning to boost household spending.”

The Bank’s press release included a number of comments on fiscal issues. The Bank said “A number of policy measures have been announced that will affect the outlook for near-term growth and inflation in Canada. Reductions in targeted immigration levels suggest GDP growth next year will be below the Bank’s October forecast. The effects on inflation will likely be more muted, given that lower immigration dampens both demand and supply. Other federal and provincial policies—including a temporary suspension of the GST on some consumer products, one-time payments to individuals, and changes to mortgage rules—will affect the dynamics of demand and inflation.”

The Bank referred to the Trump tariffs as follows “the possibility the incoming US administration will impose new tariffs on Canadian exports to the United States has increased uncertainty and clouded the economic outlook.”

The bond market reaction to the announcement was a surprising drop in prices (25 to 30 cents in the 10 year) (yields up approximately 3 basis points). The Canadian dollar rose slightly as well. Traders focused on the omission of previous references in past press releases to “further reductions in borrowing costs” implying that the Bank may take a more measured approach to rate cuts in 2025. We disagree - with unemployment rising and Trump’s tariffs on the horizon - we don’t see the Bank withdrawing from its current rate cutting program.

**Goodwood Portfolio Reaction:** The Bank’s 50 basis points rate cut became more certain post the very weak GDP data release which showed a 1% annualized Q3 GDP. In the GDP data, we note a concerning decline of 3.6% in business investment and a rise of 4.5% in government spending. In our view, the “deal was sealed” for a 50 basis points cut after the release of Friday’s unemployment data which showed a rise in the unemployment rate to a cycle high of 6.8%. Private sector jobs only increased by 6,000 whereas government sector jobs increased by 45,000. Canada’s economy is weakening. On the horizon Donald Trump’s potential tariff proposals get closer as we approach Inauguration Day in the US. We discussed the potential impact of Trump’s tariffs in our recent webinar [Impact of Donald Trump’s Win on Canadian Corporate Bonds](#). In this webinar we outline our positive outlook for bonds in the financial, utility, independent power producer and high yield sectors. Goodwood’s 2025 interest rate forecast is set out in the table below.

**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
Q1'24	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	2.90	2.80	3.00	3.20	4.50	4.40	4.10	4.05	4.20	4.40
Q1'25	2.75	2.70	2.65	2.70	2.90	3.10	4.25	4.20	3.80	4.00	4.10	4.30
Q2'25	2.50	2.50	2.55	2.60	2.80	3.00	4.00	3.90	3.60	3.70	4.00	4.20
Q3'25	2.50	2.50	2.50	2.60	2.80	3.00	3.75	3.80	3.60	3.60	3.80	4.10
Q4'25	2.50	2.50	2.50	2.60	2.80	3.00	3.75	3.80	3.60	3.60	3.80	4.10

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 tighter over equivalent term Government of Canada bond yields since the last Bank of Canada announcement on October 23, 2024.

### Recent Investment-Grade Additions to Portfolios:

CIBC NVCC C30 FX-FR 01/28/2085  
IGM Financial 3.44% 01/26/2027  
TDB TD FX-FR 5.909/30 01/31/2085

Strategy	Effective Duration*	Yield to Maturity*
Goodwood Investment-Grade Bonds	4.9	3.8
Goodwood ESG-Conscious Investment-Grade Bonds	4.1	3.8
Goodwood Milford Fund	5.0	4.7
iShares Core Canadian Universe Bond ETF	7.4	3.6
iShares Canadian Corporate Bond ETF	5.8	4.1

Available through Goodwood Inc.

Sources: Goodwood Inc., iShares by Blackrock \*As at November 30, 2024 See full disclosure below.

### Recent Investment-Grade Deletions from Portfolios:

407 International Inc 4.54% 10/09/2054 [sold]  
Canadian Core Real Estate LP 4.482% 10/16/2029 [sold]  
CU Inc 4.664% 09/11/2054 [sold]  
Enbridge Inc 4.73% 08/22/2034 [sold]  
ENMAX Corporation 4.695% 10/09/2034 [sold]  
Intact Financial Corp 4.653% 05/16/2034 [sold]  
Rogers 4.25% 04/15/2032 [sold]  
South Bow 4.933% 02/01/2035 [sold]  
Toronto Hydro Corporation 3.99% 09/26/2034 [sold]

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