

Federal Open Market Committee Statement Summary and Commentary: Today the US Federal Open Market Committee (the “FOMC”) cut by 25 basis points the target range for the federal funds rate to 4.25%-4.50%. This cut was widely anticipated by the market.

The FOMC stated that “Recent indicators suggest that economic activity has continued to expand at a solid pace. Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low. Inflation has made progress toward the Committee’s 2 percent objective but remains somewhat elevated.”

Goodwood Portfolio Reaction: The FOMC’s 25 basis points interest rate cut announcement was well anticipated by the market. The FOMC’s view (the same as their last meeting) is that “Recent indicators suggest that economic activity has continued to expand at a solid pace”. Chairman Powell’s commentary at the press conference reinforced the view that this should be considered a “hawkish” cut.

The Statement of Economic Projections “SEP” was updated and released at this meeting. The big change is the change in the “dot plots” from 4 cuts to 2 cuts in 2025 and 2026 and 1 cut in 2027. The target for the Fed Funds rate rises in the SEP from 3.4% in September to 3.9% for the end of 2024. For 2025 the Fed Funds rate estimate rises to 3.4% from 2.9% forecast in September. Core PCE estimates rose as well to 2.5% for 2025, from the 2.2% estimate in September. FOMC forecasts for GDP have increased to 2.5% in 2024 from 2.0% in September.

Big moves in the bond markets resulted. Looking at the 2 year maturity yields prior to today’s FOMC meeting - at approximately 4.23% - are within 5 basis points of where they started 2024 (approximately 4.25%). After the announcement, the US 2 year approached 4.31% (a 10 basis points increase). The 10 year and the 30 year yields fell by approximately the same amounts. Stocks on North American exchanges sold off as well.

Lastly, the Canadian dollar sold off by almost a full cent! Chairman Powell’s comments in the press conference that “we are at or near the point where we can slow the pace of rate cuts” has fueled speculation that the January meeting announcement will be a pause. Market based forecast models currently suggest an 90% probability of a no change at the January FOMC meeting.

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	BOC	3M	2Y	5Y	10Y	30Y
Q1'24	5.50	5.36	4.62	4.21	4.19	4.34	5.00	5.01	4.19	3.54	3.47	3.36
Q2'24	5.50	5.36	4.72	4.33	4.34	4.50	4.75	4.66	4.00	3.52	3.51	3.40
Q3'24	4.75	4.63	3.65	3.58	3.80	4.13	4.25	3.94	2.91	2.74	2.96	3.14
Q4'24	4.50	4.40	4.20	4.25	4.40	4.60	3.25	3.20	2.90	2.80	3.00	3.20
Q1'25	4.25	4.20	4.15	4.10	4.30	4.50	2.75	2.70	2.65	2.70	2.90	3.10
Q2'25	4.00	3.90	4.00	3.90	4.10	4.30	2.50	2.50	2.55	2.60	2.80	3.00
Q3'25	4.00	3.80	4.00	3.90	4.10	4.30	2.50	2.50	2.50	2.60	2.80	3.00
Q4'25	4.00	3.80	4.00	3.90	4.10	4.30	2.50	2.50	2.50	2.60	2.80	3.00

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

Goodwood C\$ Fixed-Income Strategies:

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 Additions to Portfolios:

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

Recent Investment-Grade Deletions from Portfolios:

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]
Toronto Hydro Corporation 3.99% 09/26/2034 [sold]

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