

Active and Strategic Fixed Income — Short Term

Second Quarter 2023

Central banks continued their battle against inflation in the second quarter. According to the Bank of Canada, inflation is still too high. It ended its pause and raised its key interest rate by 0.25% in June. Further increases will be needed to bring inflation back to the 2.0% target. Recall that, in April, the markets were expecting four rate cuts in the second half of 2023. The situation has changed completely. They are now pricing in two more rate hikes, in Canada and the United States.

During the quarter, we kept the duration longer than that of the index, a decision that detracted from the portfolio's return.

At the end of the second quarter, the slope of the 2-to-10-year segment of the curve was inverted by 132 basis points (bps). In comparison, at the end of March, the slope was negative by 84 bps. As for the segment from 2 to 5 years, it is now inverted by -90 bps. During the quarter, we kept a portion of the portfolio in securities maturing in more than 5 years.

In the second quarter, spreads on corporate securities with 5- and 10-year maturities narrowed by 11 bps. Provincial spreads were stable in the short- and medium-term segments. As for municipal spreads, they narrowed by 20 bps to end at 75 bps in relation to Quebec bonds. We increased our corporate holdings to a slightly overweight position.

Our exposure to corporate, provincial and municipal bonds was slightly below the benchmark. Specifically, our overweight in investment-grade corporate bonds was offset by our underweight in provincial bonds. With an economic slowdown looming, we continue to be cautious. Even so, we are maintaining an overweight in non-rated Quebec municipal bonds. We are also keeping the duration longer than that of the index in case of an economic shock.