

Market Analysis

Applies to the Capital Regional District (CRD), the Capital Regional Hospital District (CRHD), and the Capital Region Housing Corporation (CRHC)

As part of overall portfolio management, staff regularly monitor market trends and key metrics such as the Bank of Canada overnight interest rate, the Government of Canada bond rates and other market commentary issued by banks and investment brokers. Additionally, the Municipal Finance Authority (MFA) provides regular market commentary on new product developments and based on outlook reports provided by Phillips, Hager & North Investment Management (PH&N).

The 2023 economic landscape in Canada was marked by a shift toward higher returns against a backdrop of monetary tightening. In response to persistent inflation beginning in mid-2020, the Bank of Canada announced three additional overnight policy rate hikes in 2023, following numerous increases from the previous year. Interest rates rose from a low of 0.25% in March 2022 to a current peak of 5% by mid-July 2023.

These actions led to increased borrowing costs, while investors in experienced a notable rise in deposit product returns, moving from a range of 1% to 3% to exceeding 5% by the end of the year. Although the battle against inflation continues, it seems that the Bank of Canada may have reached the peak of its overnight policy rate for this cycle.

Both fixed income and equity returns notably strengthened in the fourth quarter of 2023, leading to overall positive returns for MFA pooled funds in the year. Fixed income markets concluded 2023 on a high note. Declining yields prompted capital gains towards the year's end while bond income remained elevated compared to recent years. Equity markets also rebounded from the negative returns of 2022, yielding strong positive returns in 2023 which benefited the MFA Diversified Multi Asset Class (DMAC) fund.

Table 1 below presents key economic indicator rates as of December 31, 2021-2023.

Table 1: Indicative Market Rates 2021 to 2023

Rate	2021	2022	2023
Bank of Canada - Overnight Rate	0.25%	0.25% - 4.25%	4.25% - 5.00%
HISA	0.80% - 0.95%	0.72% - 4.80%	4.80% - 5.75%
RBC - Bank Rate	0.80%	0.70% - 4.70%	4.70% - 5.55%
Fixed GIC - 180 Day / 1 Year (sample)	0.40% - 0.70%	2.22% / 3.06%	5.30% - 5.60%

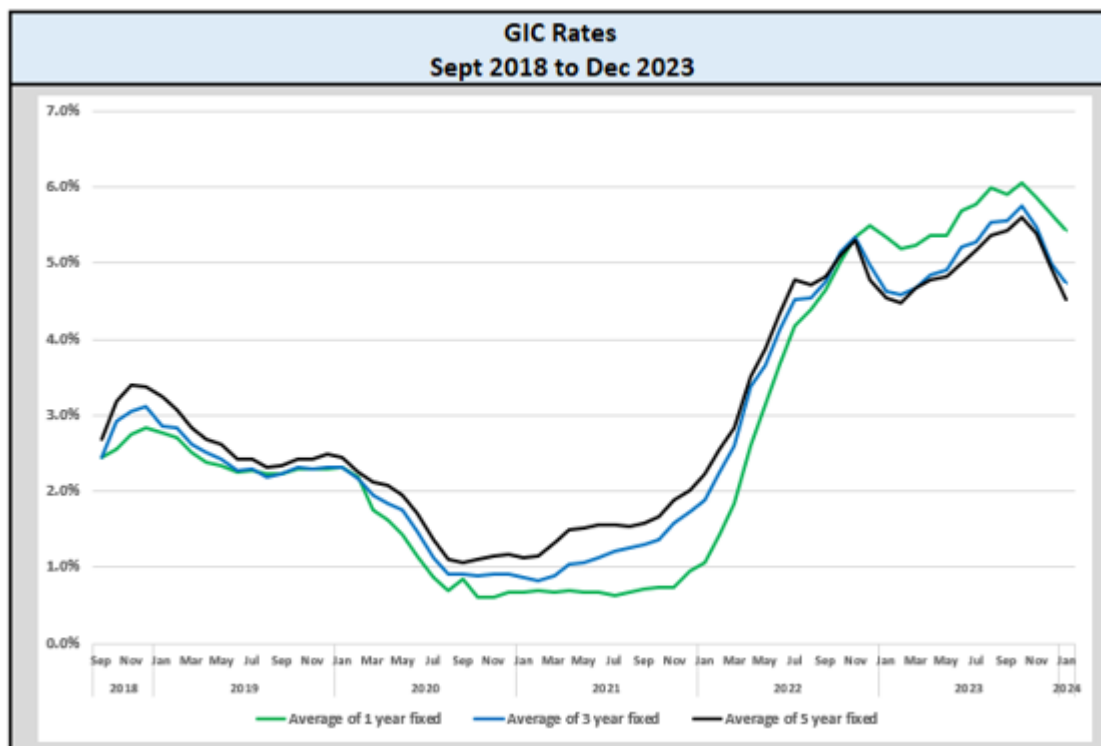
Investment Marketplace

In 2023, High Interest Savings Account (HISA) rates increased but remained lower than Guaranteed Investment Certificate (GIC) rates across most terms, rendering them less attractive

relative to fixed term GICs. Consequently, allocations to HISAs were minimized to optimize interest earnings, while maintaining some HISA liquidity for unforeseen financial needs.

GIC rates continued to increase throughout 2023, exceeding the rate of increase on deposits. As shown in Graph 1, GIC rates were at their highest late in 2023, ending the year down from the five-year high of just over 6%¹ for the one-year average term.

Graph 1: GIC Historical Rates (Short-Term)



The CRD continues to hold units in the MFA Bond Fund, MFA Fossil Fuel-Free (FFF) Bond Fund, the MFA DMAC Fund and the MFA Mortgage Fund. The FFF Bond Fund invests in securities similar to the existing bond fund except that the FFF option excludes those holdings directly related to non-renewable energy extraction, processing and transportation. This additional screening is estimated to exclude approximately 4% of the population of investible securities compared to the existing bond fund.

For the calendar 2023 year, the FFF Bond Fund underperformed the MFA Bond Fund on an annual basis by 0.39% (4.95% versus 5.34% respectively). The FFF Fund's underweight position in the positively performing energy sector and overweight positions in Real Estate and Financial sectors, which experienced significant spread widening, negatively impacted its returns over the year. The MFA Mortgage Fund returned 6.87% for 2023.

Staff will assess investment placements in existing and new MFA pooled funds in the future, for the CRD, the CRHD, and the CRHC, as the need to place long-term funds arises.

¹ CRD treasury files