Making a difference...together

Appendix B

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 2024 economic landscape in Canada saw a shift towards lower interest rates after an extended period of monetary tightening. Interest rates, which began the year at elevated levels, started to decline after April 2024 as inflationary pressures eased.

The Bank of Canada cut its overnight policy rate five times throughout the year, bringing it down from 5.0% in January to 3.25% by December. These rate cuts were in response to significant declines in inflation, which approached the Bank's 2% target by year-end. With inflation nearing the Bank of Canada's target, future rate cuts will be considered on a case-by-case basis.

Table 1 below presents key economic indicator rates as of December 31, 2022-2024.

Table 1: Indicative Market Rates 2022 to 2024

Rate	2022	2023	2024
Bank of Canada - Overnight Rate	0.25% - 4.25%	4.25% - 5.00%	3.25% - 5.00%
HISA	0.72% - 4.80%	4.80% - 5.75%	3.75% - 5.50%
RBC - Bank Rate	0.70% - 4.70%	4.70% - 5.55%	3.80% - 5.55%
Fixed GIC - 180 Day / 1 Year (sample)	2.22% - 3.06%	5.30% - 5.60%	5.40% - 5.50%

Investment Marketplace

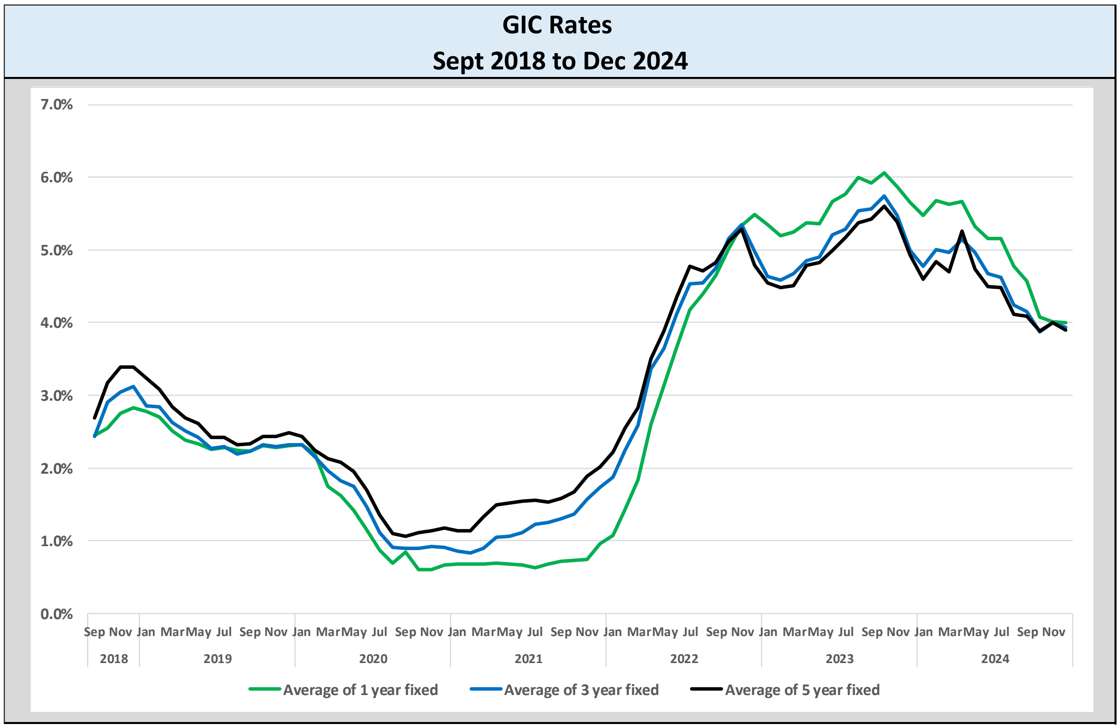
Fixed GIC rates followed a similar trajectory to the Bank of Canada overnight rate, reflecting the broader decline in interest rates across one to five-year GIC terms. These changes led to lower borrowing costs and reduced returns on deposit products.

Despite falling yields, fixed MFA pooled fund income returns remained positive in 2024, bolstered by capital gains from declining interest rates in the latter half of the year. Equity markets in Canada, the US, and globally delivered exceptional returns, rebounding strongly from weaker performance in prior years. These trends contributed to overall positive returns for MFA pooled funds, including the Diversified Multi-Asset Class (DMAC) fund, which benefited from both bond income and equity growth.

In 2024, High Interest Savings Account (HISA) rates decreased but remained competitive compared to Guaranteed Investment Certificate (GIC) rates across most terms. Consequently, by year-end allocations to HISAs were enhanced to optimize interest earnings.

As shown in Graph 1, GIC rates were at their highest late in 2023, and have been moving lower ever since.

Graph 1: GIC Historical Rates



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 2024 year, the FFF Bond Fund underperformed the MFA Bond Fund on an annual basis by 0.14% (5.53% versus 5.39% respectively). The FFF Fund's underweight position in the positively performing energy sector and overweight positions in Real Estate and Financial sectors, which experienced comparative spread widening, negatively impacted its returns over the year. The MFA Mortgage Fund returned 6.13% while the MFA DMAC returned 17.4% for 2024.

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.