

Canadian Preferred Shares Report

October 31, 2023

Fixed Income Group

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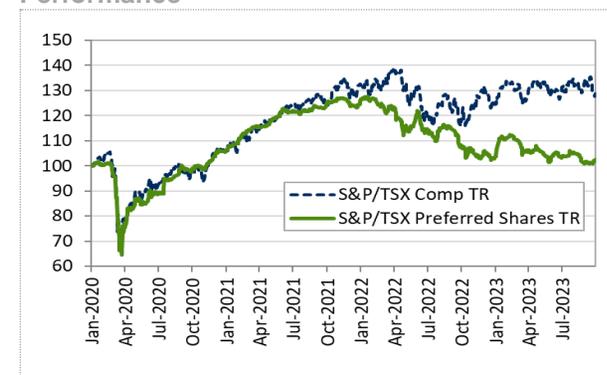
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Navigating the turbulent market

The Canadian preferred share (pref) market encountered its fair share of twists and turns in the third quarter of 2023. Despite the Bank of Canada (BoC) aggressively hiking interest rates over the past 18 months, the Canadian economy proved to be resilient and inflation persistently stayed higher than the target range. Adding to the mix, there were escalating geopolitical tensions and a rally in oil prices. Furthermore, bolstered by the central bank’s hawkish commentary emphasizing “higher for longer”, yields have surged higher.

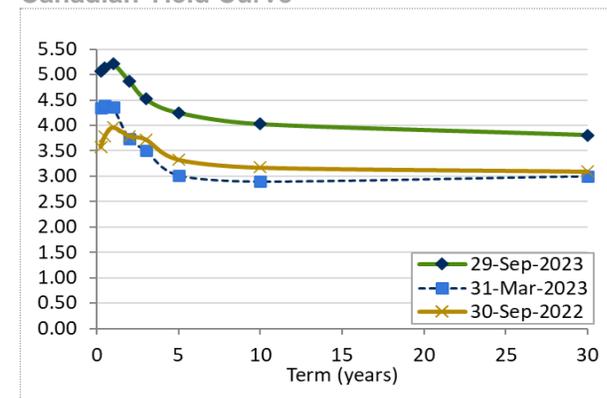
Against this backdrop, TD Bank announced the redemption of a fixed-reset pref issue. This unexpected move sparked a rally in the pref market during the last week of September, resulting in a positive month-end. However, despite the late surge, the pref market concluded the quarter with a 1.43% loss. Nevertheless, it still outperformed both the S&P/TSX Composite Index (down 2.20%) and the Canadian bond market (down 3.87%).

Performance



Source: FactSet, Raymond James Ltd.

Canadian Yield Curve



Source: FactSet, Raymond James Ltd.

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Please read domestic and foreign disclosure/risk information beginning on page 7.

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Mixed Economic Data

The Canadian economy declined slightly in the second quarter of 2023, potentially influenced by disruptive factors such as wildfires, severe weather events, and labour strikes. The data for this period, however, might be muddled by these external factors. Economic activity in July remained unchanged, and flash estimates suggest a modest 0.1% growth in GDP for August.

Despite challenging economic conditions, Canada's employment data demonstrated resilience by adding a robust 63.8K jobs in September, surpassing economist estimates. Upon closer examination, the growth was predominately fueled by part-time employment, contributing 47.9K jobs, or approximately 75% of the total employment gains. The unemployment rate saw a slight uptick over the past quarter, reaching 5.5%. It's noteworthy that Statistics Canada reported that the country's a population grew by more than 1 million people in 2022, and the Canadian population had crossed the 40 million threshold as of July 2023.

Shifting to inflation, Canada experienced a year-over-year growth figure of 3.8% in September, well above the stated target of 2%. However, there were signs of easing as it declined by 0.1% month-over-month. In its most recent meeting, the BoC decided to maintain the overnight interest rate, noting a lack of progress on core inflation. While they expect inflation be elevated in the near term, they are forecasting headline inflation would be down to 2% by 2025.

Rate Resets

Company Name	Series	Ticker	New Div. Rate %	Prev. Div. Rate (%)
ARTIS REAL ESTATE	E	AX.PR.E	7.198	5.472
BCE INC	AQ	BCE.PR.Q	6.538	4.812
BROOKFIELD CORP	32	BN.PF.A	6.744	5.061
ENBRIDGE INC	H	ENB.PR.H	6.112	4.376
FORTIS INC	G	FTS.PR.G	6.123	4.393
MANULIFE FINANCIAL CORP	13	MFC.PR.K	6.350	4.414

Source: Company Reports, Factset, Raymond James Ltd.

Rate Resets and Floating Rate

Over the past quarter, benchmark bond yields have experienced a significant uptick. Notably, the five-year Government of Canada bond (GoC) is currently at 4.10%, marking its highest rate in over 16 years. This rate holds particular significance as it serves as the benchmark for the majority of fixed-reset prefs in the Canadian market. Every five years, the issuers of fixed-reset prefs have the choice to either redeem or extend their dividend rate to align with current market rates. While most issuers have opted for an extension, the TD Bank prefs stands out as the rare exception. For those prefs that announced an extension, there was an average dividend rate increase of 1.756%.

Every five years, if the issuer decides to extend the issue, the pref holder has the option to convert their fixed-reset pref to the floating rate counterpart. Despite the substantially higher yields on floating rate prefs compared fixed-reset ones, there hasn't been significant interest from investors to make the switch. Only Enbridge Series H (ENB.PR.H) did generate enough interest, with over 1 million shares converting, leading to the issuance of a new floating rate Enbridge Series I (ENB.PR.I) pref.

TD redemption

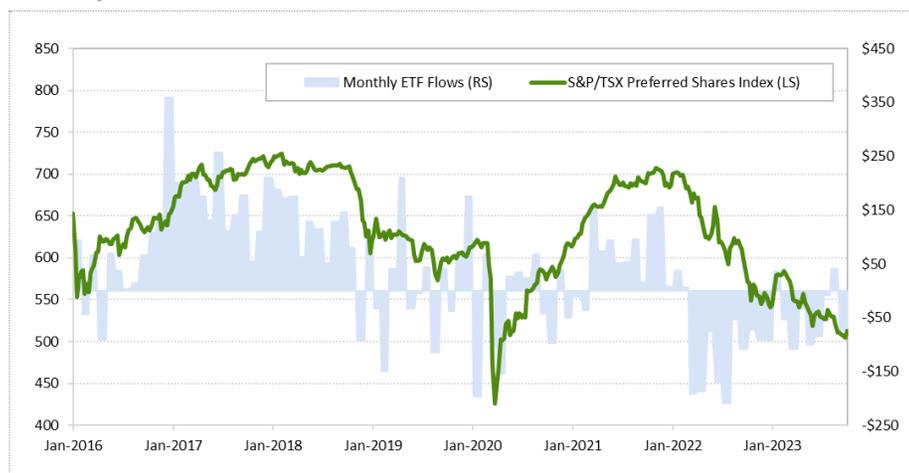
In the third quarter of 2023, only one issuer chose to redeem their pref. TD Bank's unexpected decision to redeem the TD Series 20 (TD.PF.K) prefs took the market by surprise, displayed by the security closing at \$21.79 the day before. The announcement prompted a significant 15.42% price jump in the pref, which set off a rally throughout the entire pref market. However, as of today, those gains have been erased, and the pref market is now trading at levels below those before the redemption announcement.

It's worth nothing that TD Bank had excess regulatory capital following the termination of its acquisition of First Horizon. Considering the unique circumstance surrounding TD's decision, there's no indication that this marks the beginning of a broader trend in the market.

Fund Flows

Fund flows are often regarded as a barometer of market sentiment for an asset class. While there was an inflow in pref ETFs in August, this trend swiftly reversed the following month. Throughout the third quarter, the pattern of fund outflows persisted, resulting in another \$40 million in net outflows. Since March 2022, there has been approximately \$1.67 billion in net outflows. Coupled with the low liquidity in the pref market, these outflows have exerted downward pressures on prices.

Monthly ETF flows vs S&P/TSX Preferred Shares Index



Source: Morningstar, FactSet, Raymond James Ltd.

Credit Rating Changes

Company Name	Date	Curr Rtg	Last Rtg
Intact Financial Corp	10-Oct-2023	Pfd-2H	Pfd-2
Brookfield Corp	27-Sep-2023	Pfd-2L *+	Pfd-2L
Enbridge Inc	06-Sep-2023	Pfd-3H *	Pfd-3H
Brompton Split Banc Corp	08-Aug-2023	Pfd-3	Pfd-3H
TC Energy Corp	25-Jul-2023	Pfd-3H	Pfd-2L *-

Source: DBRS, WR = Withdrawn Rating, NR = No rating has been requested. October 25, 2023.

Portfolio Positioning and Where to Look for Opportunities

The market has unmistakably shifted to a risk-off mode, witnessed by a decline in most asset classes throughout the third quarter. Despite the resilient economy and inflation proving stickier than anticipated, the market has adjusted its expectations, anticipating that rates will remain higher for an extended period. With the five-year GoC rates at levels not seen since the Great Financial Crisis in 2007, an opportunity arises for patient investors. However, amidst rising geopolitical tensions and the looming risk of a recession, a cautious and selective approach is paramount, focusing on quality prefs.

Here are some suggestions for preferred shares:

- Perpetuals trading at a steep discount:**
 Consider purchasing a perpetual pref, which has no maturity date as the name implies, that is currently available at discounted prices. Not only do most carry an appealing current yield, but they also have the potential for capital appreciation.
 - Fixed-reset prefs that reset soon:**
 Look into fixed-reset prefs that are due to reset soon. With interest rates substantially higher than five years ago, they stand to benefit from sharply increased dividend rates.
 - Upgrade credit quality:**
 Given the escalating geopolitical tensions and prevailing uncertainty, it's prudent to upgrade credit quality whenever possible.
 - Yield enhancer:**
 Prefs are not a substitute for bonds. Instead, they can serve as a yield enhancer, complementing other fixed-income products to boost overall yield in a diversified portfolio.
- Please talk with your financial advisor about preferred shares and how they may best fit within your portfolio.

Highlighted Securities

PREFERRED SHARES ANALYSIS- Highlighted Issues

Issuer	General Information		Rating	Price			Dividend		Possible Calls		
	Series	Symbol	DBRS	Par	25-Oct-2023	Current Yield	Annual	MMMM-DD	Date	Price	YTC
Fixed Reset											
BANK OF MONTREAL	44	BMO.PR.E	Pfd-2	\$25.00	\$21.84	5.55%	\$1.21	FMAN-25	25-Nov-2023	\$25.00	191.09
BANK OF NOVA SCOTIA	40	BNS.PR.I	Pfd-2	\$25.00	\$20.88	5.81%	\$1.21	MJSD-31	27-Jan-2024	\$25.00	81.28
CANADIAN IMPERIAL BANK	47	CM.PR.S	Pfd-2	\$25.00	\$18.95	7.76%	\$1.47	JAJO-31	31-Jan-2028	\$25.00	12.92
INTACT FINANCIAL CORP	7	IFC.PR.G	Pfd-2H	\$25.00	\$19.16	7.84%	\$1.50	MJSD-31	30-Jun-2028	\$25.00	12.82
MANULIFE FINANCIAL CORP	9	MFC.PR.I	Pfd-2H	\$25.00	\$19.16	7.80%	\$1.49	MJSD-19	19-Sep-2027	\$25.00	14.00
NATIONAL BANK OF CANADA	40	NA.PR.E	Pfd-2	\$25.00	\$18.95	7.68%	\$1.45	MJSD-15	15-May-2028	\$25.00	12.78
POWER FINANCIAL CORP	T	PWF.PR.T	Pfd-2H	\$25.00	\$19.19	5.49%	\$1.05	JAJO-31	31-Jan-2024	\$25.00	118.22
TORONTO-DOMINION BANK	16	TD.PF.I	Pfd-2H	\$25.00	\$22.23	7.09%	\$1.58	JAJO-31	31-Oct-2027	\$25.00	9.58
Perpetuals											
BROOKFIELD CORP	36	BN.PF.C	Pfd-2L *+	\$25.00	\$15.71	7.72%	\$1.21	MJSD-31	24-Nov-2023	\$25.00	797.40
GREAT-WEST LIFECO INC	G	GWO.PR.G	Pfd-2H	\$25.00	\$17.94	7.25%	\$1.30	MJSD-1	24-Nov-2023	\$25.00	524.44
INTACT FINANCIAL CORP	5	IFC.PR.E	Pfd-2H	\$25.00	\$18.67	6.96%	\$1.30	MJSD-31	24-Nov-2023	\$25.75	505.11
POWER FINANCIAL CORP	D	PWF.PR.E	Pfd-2H	\$25.00	\$18.65	7.37%	\$1.38	JAJO-31	24-Nov-2023	\$25.00	680.25
Floating											
BCE INC	AE	BCE.PR.E	Pfd-3	\$25.00	\$16.86	10.68%	\$1.80	monthly-12	11-Dec-2023	\$25.50	405.02
Synthetic											
FINANCIAL 15 SPLIT CORP		FTN.PR.A	Pfd-3	\$10.00	\$10.02	7.49%	\$0.75	monthly-10	01-Nov-2024	\$15.00	N/A
Retracatable											
CANOE EIT INCOME FUND	2	EIT.PR.B	Pfd-2H	\$25.00	\$24.33	4.93%	\$1.20	MJSD-15	24-Nov-2023	\$25.75	82.86
US Dollar											
ENBRIDGE INC	1	ENB.PR.V	Pfd-3H *	\$25.00	\$18.54	9.04%	\$1.68	MJSD-1	01-Jun-2028	\$25.00	14.69
ENBRIDGE INC	L	ENB.PF.U	Pfd-3H *	\$25.00	\$17.07	8.58%	\$1.46	MJSD-1	01-Sep-2027	\$25.00	17.34
TOTAL											

General Information			
Issuer	Series	Symbol	Notes
Fixed Reset			
BANK OF MONTREAL	44	BMO.PR.E	5yr GoC +2.68%
BANK OF NOVA SCOTIA	40	BNS.PR.I	5yr GoC +2.43%
CANADIAN IMPERIAL BANK	47	CM.PR.S	5yr GoC +2.45%
INTACT FINANCIAL CORP	7	IFC.PR.G	5yr GoC +2.55%
MANULIFE FINANCIAL CORP	9	MFC.PR.I	5yr GoC +2.86%
NATIONAL BANK OF CANADA	40	NA.PR.E	5yr GoC +2.58%
POWER FINANCIAL CORP	T	PWF.PR.T	5yr GoC +2.37%
TORONTO-DOMINION BANK	16	TD.PF.I	5yr GoC +3.01%
Perpetuals			
BROOKFIELD CORP	36	BN.PF.C	
GREAT-WEST LIFE CO INC	G	GWO.PR.G	
INTACT FINANCIAL CORP	5	IFC.PR.E	
POWER FINANCIAL CORP	D	PWF.PR.E	
Floating			
BCE INC	AE	BCE.PR.E	≥50% of Prime, but Prime Max, floats monthly, redeemable anytime for \$25.50
Synthetic			
FINANCIAL 15 SPLIT CORP		FTN.PR.A	
Retracatable			
CANOE EIT INCOME FUND	2	EIT.PR.B	
US Dollar			
ENBRIDGE INC	1	ENB.PR.V	US 5-yr + 3.14%
ENBRIDGE INC	L	ENB.PF.U	US 5-yr + 3.15%
TOTAL			

Most Actively Traded

Trading volume data as at October 25, 2023. 30-Day = average volume over past 30 days. 5-Day = average volume over past 5 days

Floating-Rate

Issuer	Series	Symbol	30-Day	5-Day
BCE INC	AD	BCE.PR.D	14,127	30,784
SUN LIFE FINANCIAL INC	9QR	SLF.PR.J	9,068	1,497
BCE INC	AE	BCE.PR.E	6,467	8,662
BCE INC	AB	BCE.PR.B	5,965	6,674
BCE INC	Y	BCE.PR.Y	5,524	5,454
BROOKFIELD CORP	2	BN.PR.B	5,469	5,319
BROOKFIELD CORP	4	BN.PR.C	3,368	4,406
FAIRFAX FINL HLDGS LTD	J	FFH.PR.J	3,307	4,200
FAIRFAX FINL HLDGS LTD	F	FFH.PR.F	3,108	4,003
FAIRFAX FINL HLDGS LTD	D	FFH.PR.D	2,944	1,252

Retractable

Issuer	Series	Symbol	30-Day	5-Day
CANOE EIT INCOME FUND	1	EIT.PR.A	3,912	6,600
CANOE EIT INCOME FUND	2	EIT.PR.B	2,593	2,260
BROOKFIELD INVESTMENTS	A	BRN.PR.A	1,000	688

Perpetual

Issuer	Series	Symbol	30-Day	5-Day
BROOKFIELD PROP PFD LP		BPYPM	35,375	15,486
CANADIAN UTILITIES LTD	w	CU.PR.J	10,716	6,501
ENBRIDGE INC	A	ENB.PR.A	8,741	33,664
FORTIS INC	J	FTS.PR.J	8,581	4,569
POWER CORPORATION CANADA	G	POW.PR.G	8,278	2,441
POWER FINANCIAL CORP	23	PWF.PF.A	8,093	1,438
MANULIFE FINANCIAL	2	MFC.PR.B	8,007	15,664
MANULIFE FINANCIAL CORP	3	MFC.PR.C	7,854	16,935
CANADIAN UTILITIES LTD	AA	CU.PR.D	7,595	19,738
GREAT-WEST LIFECO INC	I	GWO.PR.I	6,329	8,004

Fixed-Reset

Issuer	Series	Symbol	30-Day	5-Day
TORONTO-DOMINION BANK	20	TD.PF.K	84,818	33,351
TORONTO-DOMINION BANK	3	TD.PF.B	26,917	25,504
BROOKFIELD RENEW POW PFD		BRF.PR.C	25,183	81,370
NATIONAL BANK OF CANADA	42	NA.PR.G	23,878	12,707
FORTIS INC	M	FTS.PR.M	22,455	33,709
TC ENERGY CORP	9	TRP.PR.E	21,932	33,541
BCE INC	AK	BCE.PR.K	21,100	31,983
GREAT-WEST LIFECO INC	N	GWO.PR.N	20,986	11,401
ROYAL BANK OF CANADA	BD	RY.PR.J	19,938	8,240
BANK OF MONTREAL	27	BMO.PR.S	19,823	20,050

Appendix A: Yield Tables

Yields tables are included as a separate report/attachment, and are also available from the Fixed Income Group of Raymond James Ltd.

Preferred Share: Education and Glossary

Additional information (including definitions, risks, types, tax consequences, etc) on Preferred Shares can be found on the Fixed Income page on the internal website / available through your advisor.

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