



MONTHLY FIXED INCOME UPDATE

Hank Cunningham

February 8, 2021

Interest Rate Summary	Jan-29-21	Dec-31-20	Dec-31-19	Dec-31-18	29-Dec-17	30-Dec-16
U.S.						
3-Month T-Bill	0.05%	0.08%	1.55%	2.36%	1.38%	0.50%
2-Year Treasury	0.11%	0.12%	1.57%	2.49%	1.89%	1.19%
10-Year Treasury	1.07%	0.92%	1.92%	2.69%	2.41%	2.44%
Canada						
3-Month T-Bill	0.06%	0.06%	1.65%	1.64%	1.05%	0.45%
2-Year Canada	0.15%	0.20%	1.69%	1.86%	1.69%	0.74%
10-Year Canada	0.89%	0.68%	1.70%	1.97%	2.04%	1.72%

Performance

	YTD	2020	2019	2018	2017	2016	2015
DEX Universe Bond Index	-1.11%	8.68%	6.87%	1.41%	2.52%	3.52%	3.52%
DEX Federal Bond Index	-0.85%	7.28%	3.73%	2.39%	0.13%	3.66%	3.66%
DEX Provincial Bond Index	-1.75%	9.86%	9.07%	0.66%	4.33%	4.14%	4.14%
DEX All Corporate Index	-0.54%	8.74%	8.05%	1.10%	3.38%	2.71%	2.71%
DEX "A" Corporate Index	-1.03%	8.98%	9.65%	0.51%	4.42%	2.62%	2.62%
DEX Real Return Bonds	-2.20%	13.02%	8.02%	-0.05%	0.72%	2.79%	2.79%
DEX High Yield Bonds	1.10%	6.69%	8.48%	2.15%	5.20%	13.79%	-5.58%

All sectors produced negative performance in January with the exception of high yield bonds.

Longer-term bond yields rose in January with the bellwether U.S. ten-year note gaining fifteen basis points and the Canadian ten-year bond adding twenty-one basis points. This trend has continued with these bonds tacking on a further ten basis points since month end. Early in January, the U.S. ten-year finally broke through the psychological barrier of 1%.

This occurred after a steady stream of economic data exceeded expectations, including housing starts, home sales (prices were the best since 2006), durable goods orders, capital goods orders and various PMIs.

Further, inflation expectations soared over 2% and the broad rally in commodity prices continued.

Canada also reported some strong data, such as a blowout retail sales print, plus a robust 0.7% increase in the November GDP.

One highlight was the performance of high-yield bonds, which rose to all-time highs as a result of the parade of good economic news.

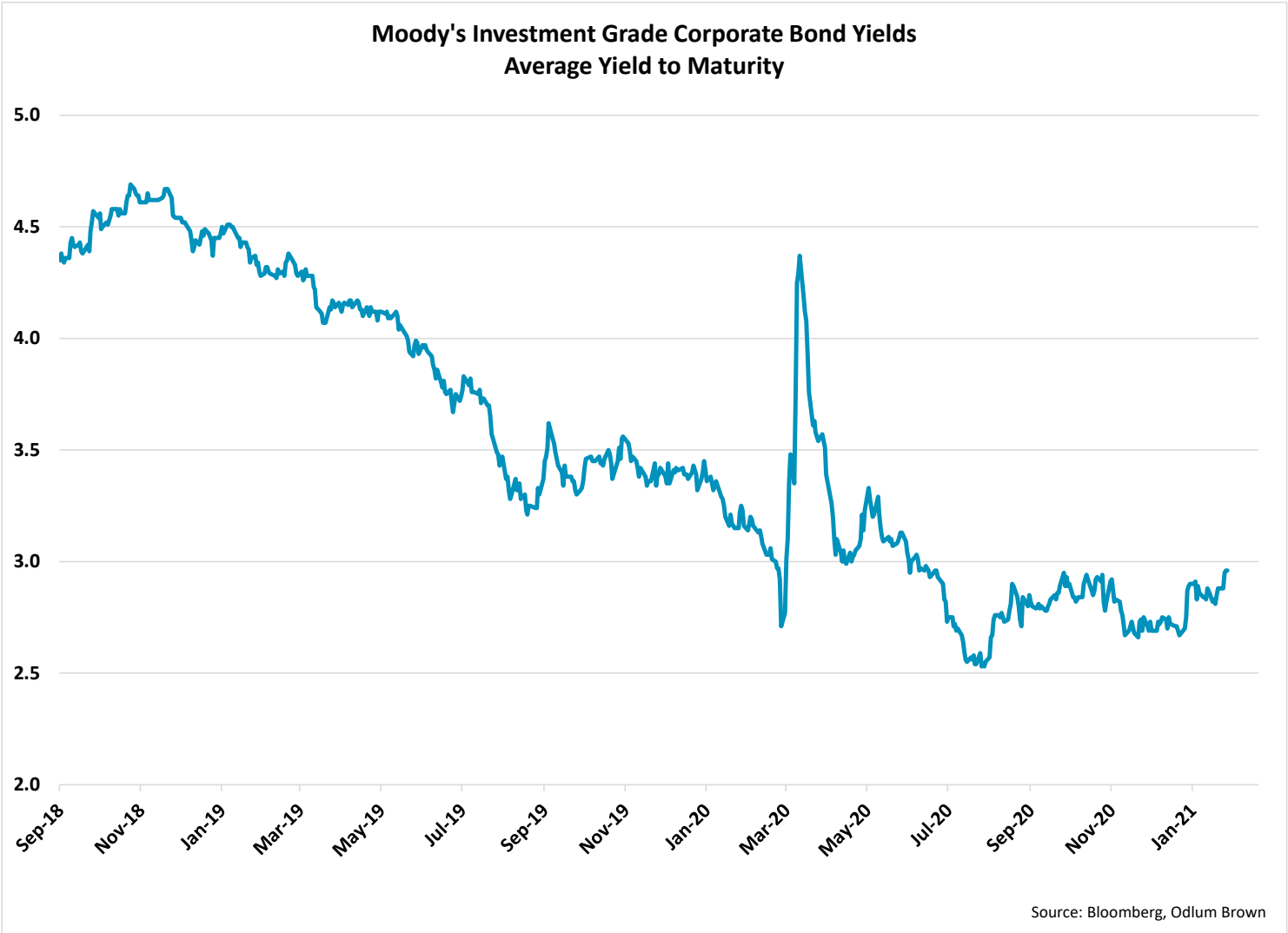
Globally, prospects have brightened, such that the IMF raised its GDP estimate for this year from 5.2% to 5.5%. Central Banks displayed no inclination to taper their massive bond buying programs.

U.S. 10-Year Treasury

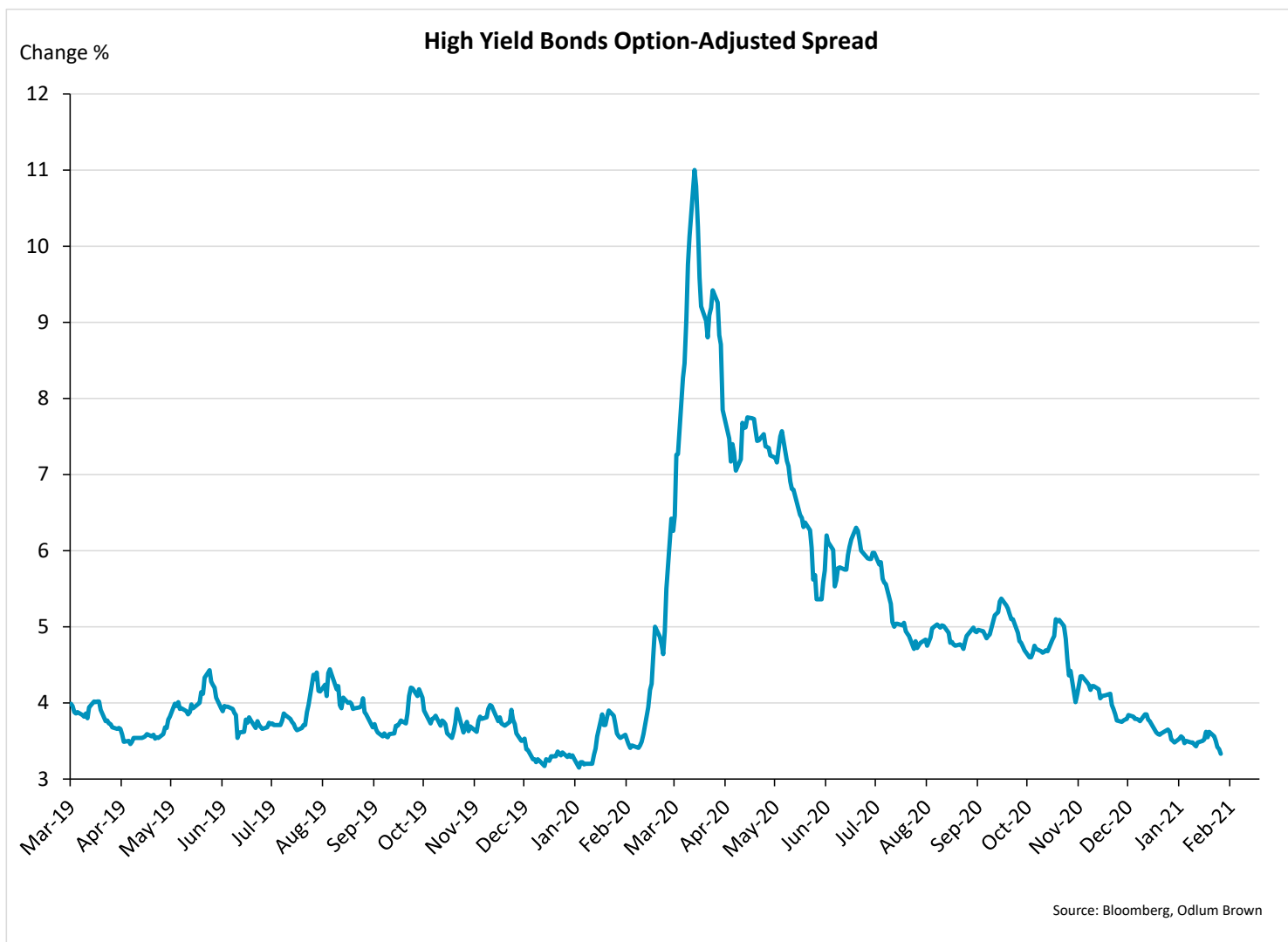


Source: Bloomberg, Odium Brown

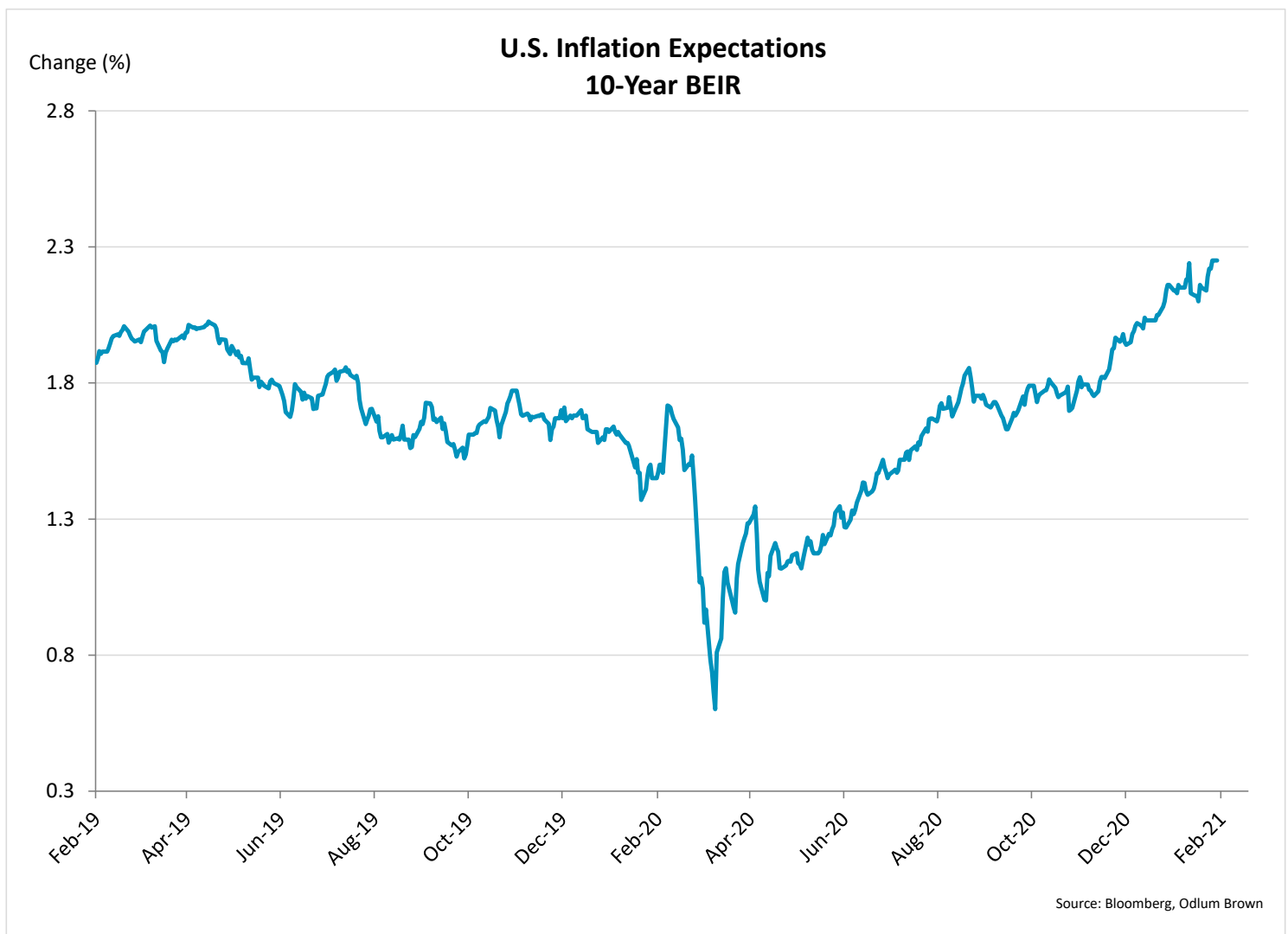
This global bellwether moved decisively above 1%.



Investment-grade corporate bond yields have begun to move higher with U.S. Treasury yields.



The high yield market resumed its rally. Spreads reached close to all-time lows.



Inflation expectations moved sharply above the important 2% level and are at six-year highs.

Outlook

Higher bond yields are on the way. The market is focused on reflation and there are a number of factors contributing to this analysis, namely:

- Massive federal deficits
- Soaring Money Supply; up 25% year-over-year, but turnover is still low
- Monetary easing; the Federal Reserve favours inflation running higher than its 2% target
- Commodity prices up 13% in the last twelve months
- Weaker U.S. dollar
- Inflation expectations are at six-year high

While it appears that deflationary forces are ebbing, they have not disappeared. Japan is the model for not being able to boost inflation owing to the twin deflationary forces of demography and technology.

CPI estimates are for a 2.2% increase in 2021, perhaps reaching 3% at its highest.

Corporate bond yields will compress further with government yields but will not fall in nominal terms. Therefore, we expect poor returns in government bonds as we anticipate the U.S. ten-year yield to climb towards 1.50%. Corporate bonds will produce modest positive returns at best.

Strategy

With an outlook for gradually rising bond yields, the number one theme for fixed income investors is preservation of capital. We continue to stress the importance of including high-quality fixed income securities of relatively short durations in client portfolios. In this environment, we favour non-cyclical corporate bonds of maturities less than five years, such as those issued by utilities, banks, telecommunications and recurring-revenue businesses. Corporate bonds will generate only modest returns this year but will outperform government bonds.

We have long recommended a laddered approach to fixed income investing. We continue to do so as a one-to-five year ladder has a short duration.

For several years, we have had an approved list of outside fund managers. At present, in order to augment returns and benefit from their expertise in credit markets, we recommend two of these managers in particular, who are well positioned for this market environment. For further discussion, please speak to your Portfolio Manager or Investment Advisor.

Please read our Odium Brown Limited Disclaimer and Disclosure - It is important!

Odium Brown Limited is an independent, full-service investment firm focused on providing professional investment advice and objective research. We respect your right to be informed of relationships with the issuers or strategies referred to in this report which might reasonably be expected to indicate potential conflicts of interest with respect to the securities or any investment strategies discussed or recommended in this report. We do not act as a market maker in any securities and do not provide investment banking or advisory services to, or hold positions in, the issuers covered by our research. Analysts and their associates may, from time to time, hold securities of issuers discussed or recommended in this report because they personally have the conviction to follow their own research, but we have implemented internal policies that impose restrictions on when and how an Analyst may buy or sell securities they cover and any such interest will be disclosed in our report in accordance with regulatory policy. Our Analysts receive no direct compensation based on revenue from investment banking services. We describe our research policies in greater detail, including a description of our rating system and how we disseminate our research, on the Odium Brown Limited website.

This report has been prepared by Odium Brown Limited and is intended only for persons resident and located in all the provinces and territories of Canada, where Odium Brown Limited's services and products may lawfully be offered for sale, and therein only to clients of Odium Brown Limited. This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country including the United States, where such distribution or use would be contrary to law or regulation or which would subject Odium Brown Limited to any registration requirement within such jurisdiction or country. As no regard has been made as to the specific investment objectives, financial situation, and other particular circumstances of any person who may receive this report, clients should seek the advice of a registered investment advisor and other professional advisors, as applicable, regarding the appropriateness of investing in any securities or any investment strategies discussed or recommended in this report.

This report is for information purposes only and is neither a solicitation for the purchase of securities nor an offer of securities. The information contained in this report has been compiled from sources we believe to be reliable, however, we make no guarantee, representation or warranty, expressed or implied, as to such information's accuracy or completeness. All opinions and estimates contained in this report, whether or not our own, are based on assumptions we believe to be reasonable as of the date of the report and are subject to change without notice.

Please note that, as at the date of this report, the Research Analyst responsible for the recommendations herein, associates of such Analyst and/or other individuals directly involved in the preparation of this report hold securities of some of the issuer(s) referred to directly or through derivatives.

No part of this publication may be reproduced without the express written consent of Odium Brown Limited. Odium Brown Limited is a Member of the Canadian Investor Protection Fund.
