Monthly Fixed Income Update

Hank Cunningham

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Interest Rate Summary	Oct-29-21	Sep-29-21	Aug-31-21	Jul-30-21	Jun-30-21	May-31-21	Apr-30-21	Dec-31-20
U.S.								
3-Month T-Bill	0.05%	0.04%	0.04%	0.04%	0.04%	0.01%	0.01%	0.08%
2-Year Treasury	0.50%	0.28%	0.21%	0.19%	0.25%	0.14%	0.16%	0.12%
10-Year Treasury	1.56%	1.49%	1.31%	1.22%	1.46%	1.60%	1.63%	0.92%
Canada								
3-Month T-Bill	0.15%	0.13%	0.16%	0.17%	0.14%	0.11%	0.10%	0.06%
2-Year Canada	1.09%	0.53%	0.42%	0.45%	0.45%	0.32%	0.30%	0.20%
10-Year Canada	1.72%	1.51%	1.21%	1.20%	1.39%	1.48%	1.54%	0.68%

Performance

	YTD	2020	2019	2018	2017	2016	2015
DEX Universe Bond Index	-4.96%	8.68%	6.87%	1.41%	2.52%	3.52%	3.52%
DEX Federal Bond Index	-4.59%	7.28%	3.73%	2.39%	0.13%	3.66%	3.66%
DEX Provincial Bond Index	-6.44%	9.86%	9.07%	0.66%	4.33%	4.14%	4.14%
DEX All Corporate Index	-3.26%	8.74%	8.05%	1.10%	3.38%	2.71%	2.71%
DEX "A" Corporate Index	-4.50%	8.98%	9.65%	0.51%	4.42%	2.62%	2.62%
DEX Real Return Bonds	-5.92%	13.02%	8.02%	-0.05%	0.72%	2.79%	2.79%
DEX High Yield Bonds	5.85%	6.69%	8.48%	2.15%	5.20%	13.79%	-5.58%

Bond yields continued to climb at all maturities in October; the bellwether ten-year treasury note hit 1.70%, close to the yearly high, before retreating to 1.62% at present. The chief drivers of this move have been inflation and employment conditions. In fact, wage increases are beginning to accelerate.

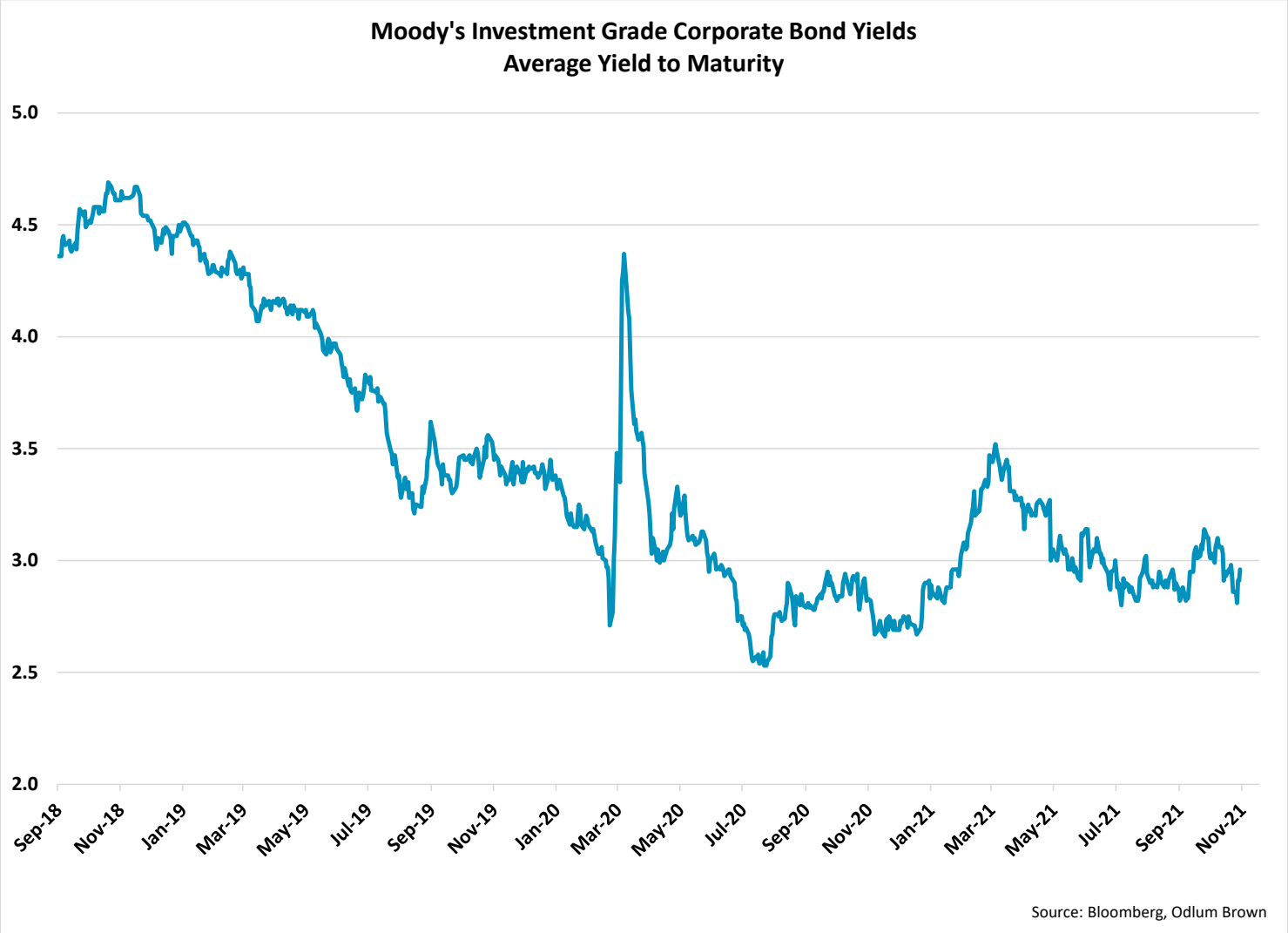
Central banks, in reaction, have signaled the first steps towards a less accommodative monetary policy. The Federal Reserve, for one, will begin to taper its bond purchases this month, perhaps finishing this process by mid-2022.

The Bank of Canada has been the most hawkish, ending its quantitative easing (QE) altogether, while signaling the strong likelihood of hikes in its key lending rate in 2022. Thus far, the Bank of England and the European Central Bank have held their policies intact but are poised to act.

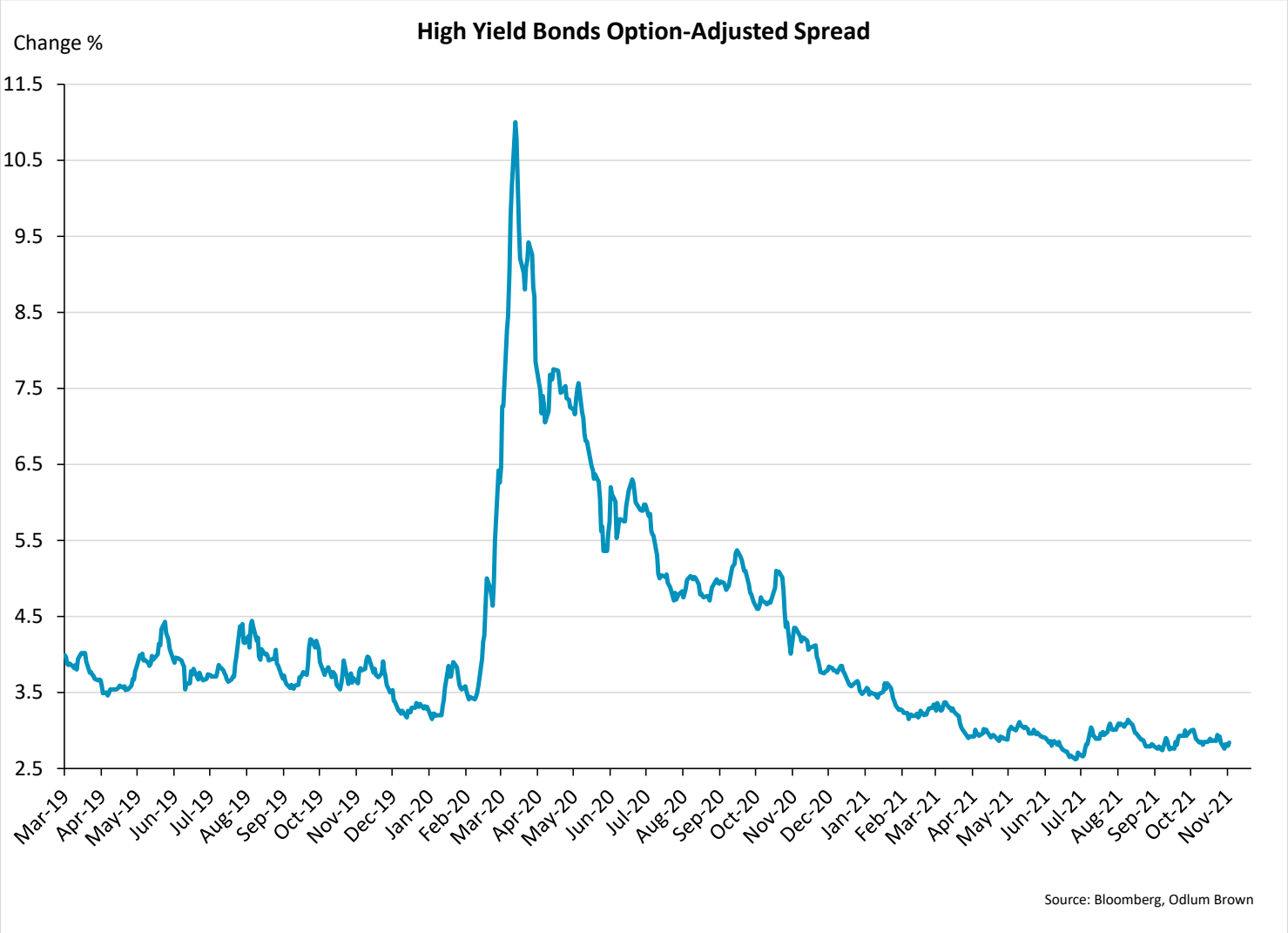
As a result of the move higher in bond yields, bond performance has been weak in all sectors. The corporate bond market remains vibrant, but yields have moved up with government yields.

U.S. 10-Year Treasury

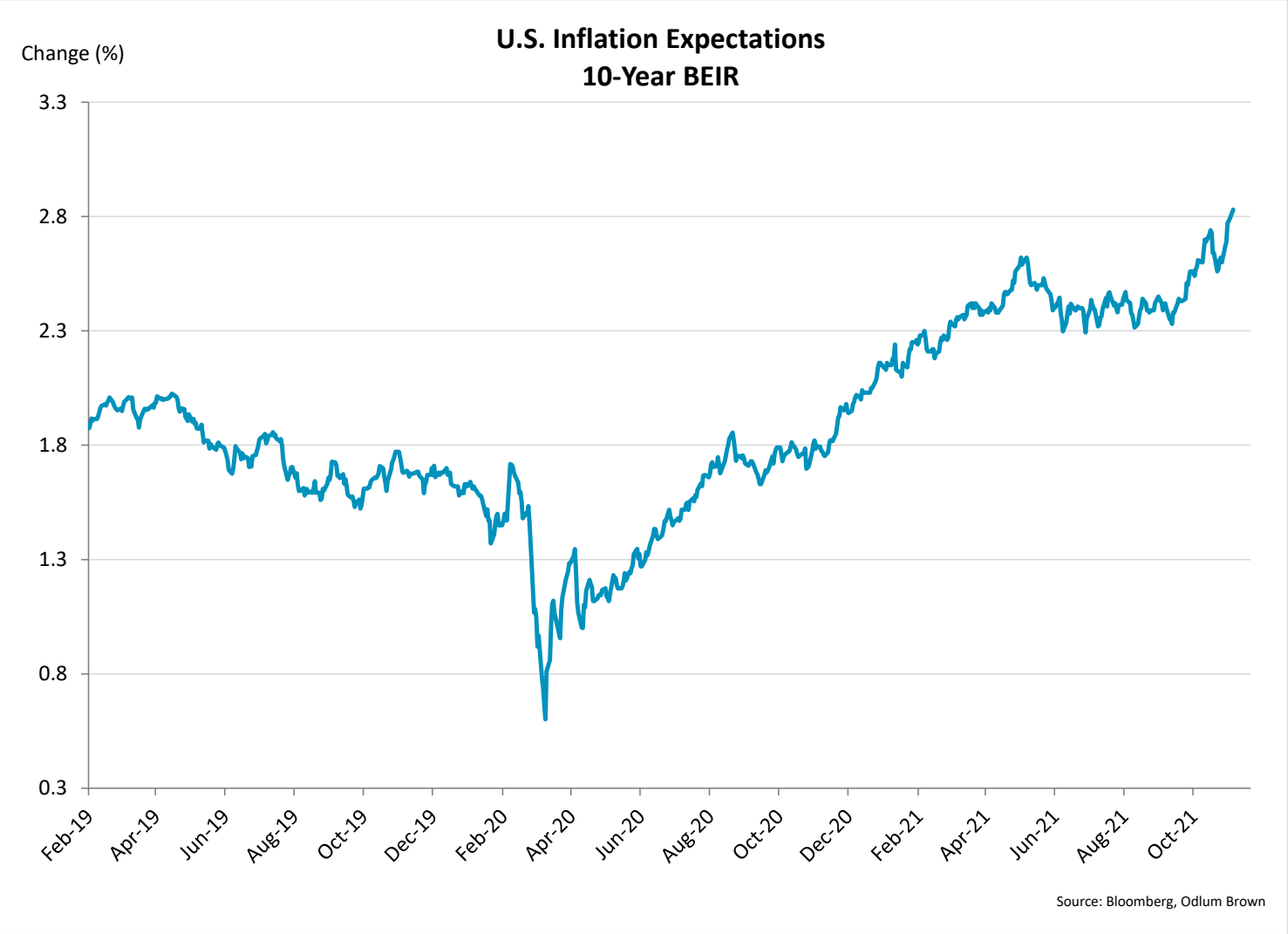
This benchmark's yield, after plunging in early August, bounced up 36 basis points since that low. It approached the high for the year of 1.75%, but has eased back.



Investment-grade corporate bond yields began to move higher with U.S. Treasury yields early in the year and continue to track them closely, despite record issuance.



The high yield market remains close to record-low spreads but nominal yields have move higher.



Inflation expectations have climbed to two-year highs.

Outlook

Fixed income yields are poised to move even higher. Inflation is proving to be resilient, pushing to multi-decade highs as measured by the CPI in the U.S., and broadly higher elsewhere. The transitory view on inflation are taking a hit as price pressures spread to most sectors of the economy. In the wake of this, demands for higher wages have begun and are likely to continue.

Global growth estimates are optimistic and many developed world economies have surpassed various pre-pandemic levels.

Overall, we may be in a bear market for bonds. The move higher in short-term yields is a harbinger of the tapering about to begin. In the near term, it is likely that bond yields may make a new high for the year, passing 1.75% in the process.

Strategy

This is a time to defend principal in the bond market as investing in long-term bonds, which, while offering higher nominal yields than shorter-term bonds, carry significant capital loss potential for any rise in long-term yields. Thus, we counsel investors not to reach for yield, but instead to invest in short-term, high-quality corporate bonds. This approach will defend principal while producing modest returns.

Specifically, we recommend a laddered approach using the **Odlum Brown Corporate Bond Ladder**. GICs could be used in the ladder as well. In addition, we adopted the use of outside bond investment managers to augment returns. We continue to do so. Our top recommended funds are:

- **Picton Mahoney Liquid Alt Fund.** This is a well-managed long/short fund and is available as an ETF.
- **Canso Short-term and Floating-Rate Fund.** This fund protects principal and takes advantage of opportunities in the floating-rate market.
- **Canso Corporate Value Fund.** This is a well-managed, long-only corporate bond fund.

Please consult your Investment Advisor or Portfolio Manager for more details and to discuss this strategy.