Monthly Fixed Income Update

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Interest Rate Summary	31-Mar-17	30-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13	31-Dec-12
U.S.						
3-Month T-Bill	0.75%	0.50%	0.16%	0.04%	0.07%	0.04%
2-Year Treasury	1.26%	1.19%	1.31%	0.47%	0.38%	0.25%
10-Year Treasury	2.39%	2.44%	2.27%	2.17%	3.03%	1.76%
Canada						
3-Month T-Bill	0.53%	0.45%	0.51%	0.90%	0.92%	0.92%
2-Year Canada	0.75%	0.74%	0.48%	0.99%	1.14%	1.14%
10-Year Canada	1.62%	1.72%	1.39%	1.86%	2.76%	1.80%

Performance

	Mar-2017	Year-to-Date	2016	2015	2014	2013	2012
DEX Universe Bond Index	0.41%	1.24%	3.52%	3.52%	8.79%	-1.19%	2.65%
DEX Federal Bond Index	0.20%	0.64%	3.66%	3.66%	6.91%	-1.52%	2.11%
DEX Provincial Bond Index	0.61%	1.38%	4.14%	4.14%	12.18%	-2.70%	
DEX All Corporate Index	0.42%	1.83%	2.71%	2.71%	7.58%	0.84%	6.22%
DEX "A" Corporate Index	0.63%	2.07%	2.62%	2.62%	9.10%	-0.16%	6.85%
DEX Real Return Bonds	-0.19%	-1.28%	2.79%	2.79%	13.18%	-13.1%	
DEX High Yield Bonds	0.06%	3.20%					

Comments:

Performance was positive in all sectors of the bond market in March with the exception of Real Return bonds. Investment-grade corporate bonds outperformed governments while high-yield bonds lagged for the first time this year.

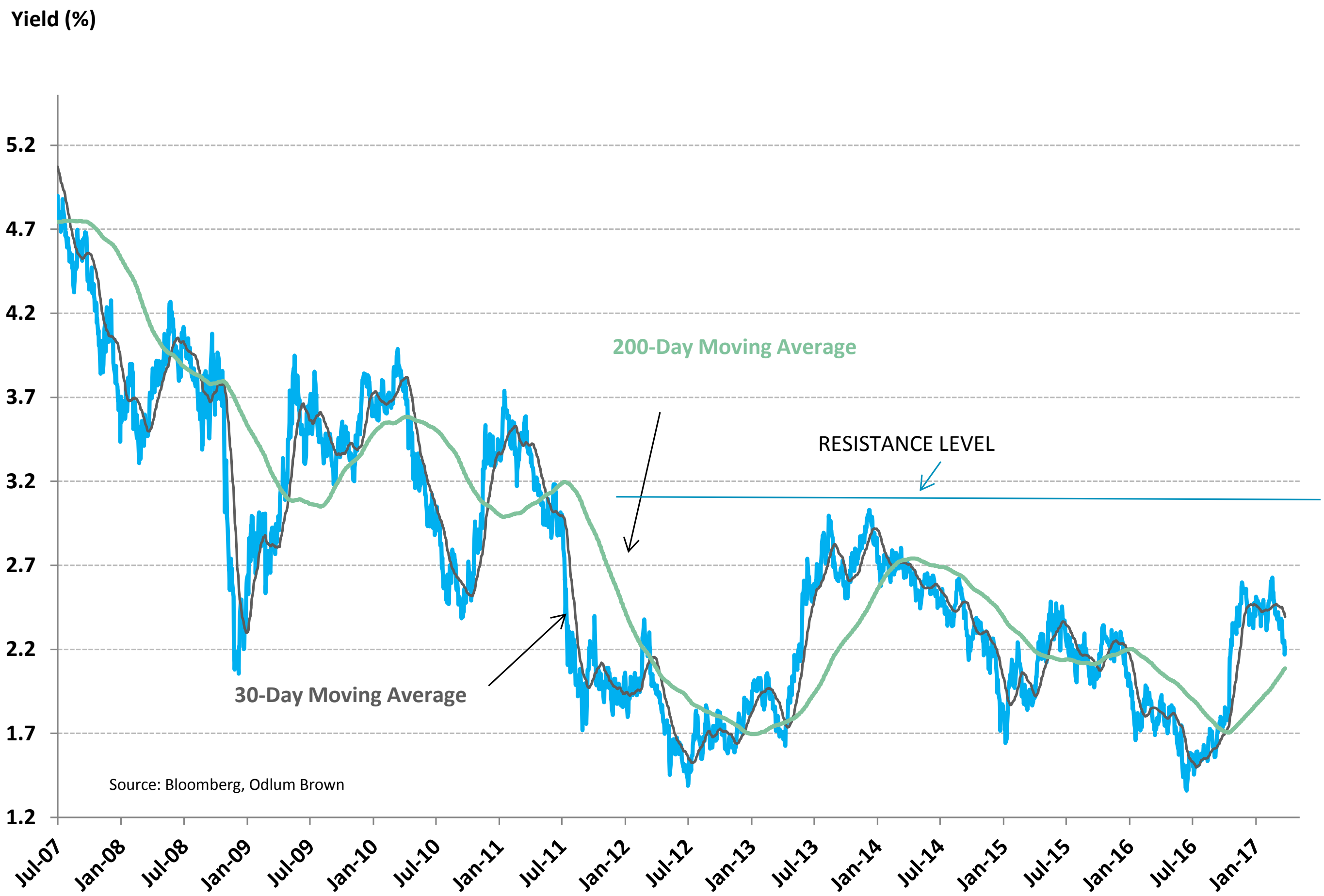
The U.S. ten-year note finished the month unchanged at 2.39% after its yield pushed above 2.60% early in the month.

The month began with a solid increase of 235,000 non-farm jobs in the U.S. along with an uptick in average hourly earnings. This report, along with other positive data, moved the odds of the Fed hiking rates to 100%. That was realized on March 15 as the Fed made what was labelled as a "dovish" increase of 25 basis points in the Fed Funds Rate. As the month progressed, bond yields began to fall, driven in part by the setback to the Trump Administration's health care bill. This, in turn, fueled thoughts that President Trump would have similar difficulties when he tackles tax reform and subsequently led analysts to downgrade U.S. growth and inflation forecasts for 2017.

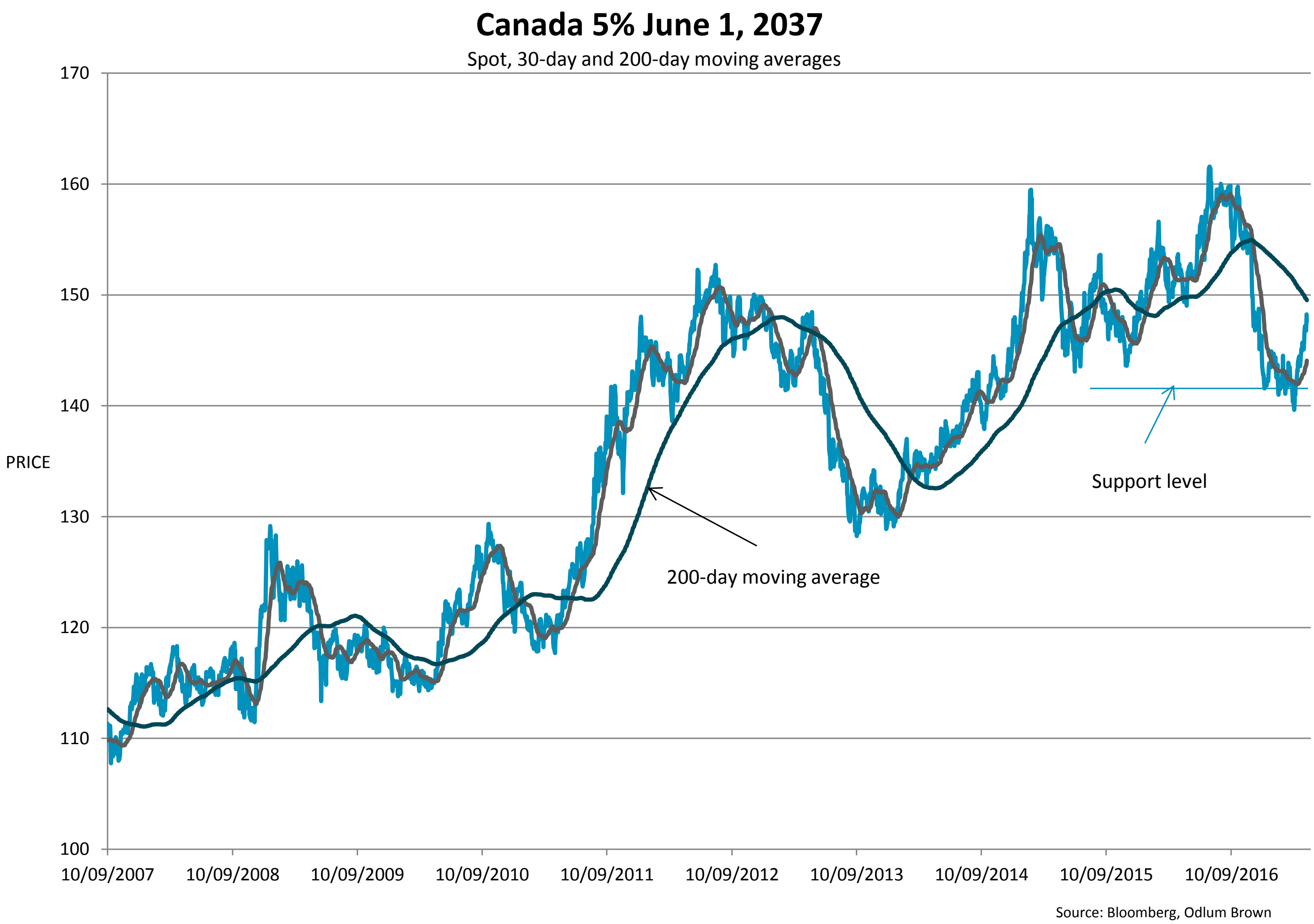
Canada produced a series of robust economic data suggesting our GDP may grow by 2.5% this year, perhaps exceeding that of the U.S. The string of reports included a whopping increase of 0.6% in January GDP, a fourth straight monthly trade surplus, strong employment gains and robust housing and auto sales. It appears that the infrastructure spending, announced in 2016, is kicking in with the typical lag. Despite all the positives for Canada, Bank of Canada Governor Poloz is maintaining a neutral stance as he has consistently worked to keep the Loonie down. He did, however, dismiss the likelihood of a rate cut.

This is taking place against a backdrop of improving global conditions. The IMF has upgraded global growth to 3.5% this year as China's growth has picked up and conditions are improving steadily in Europe.

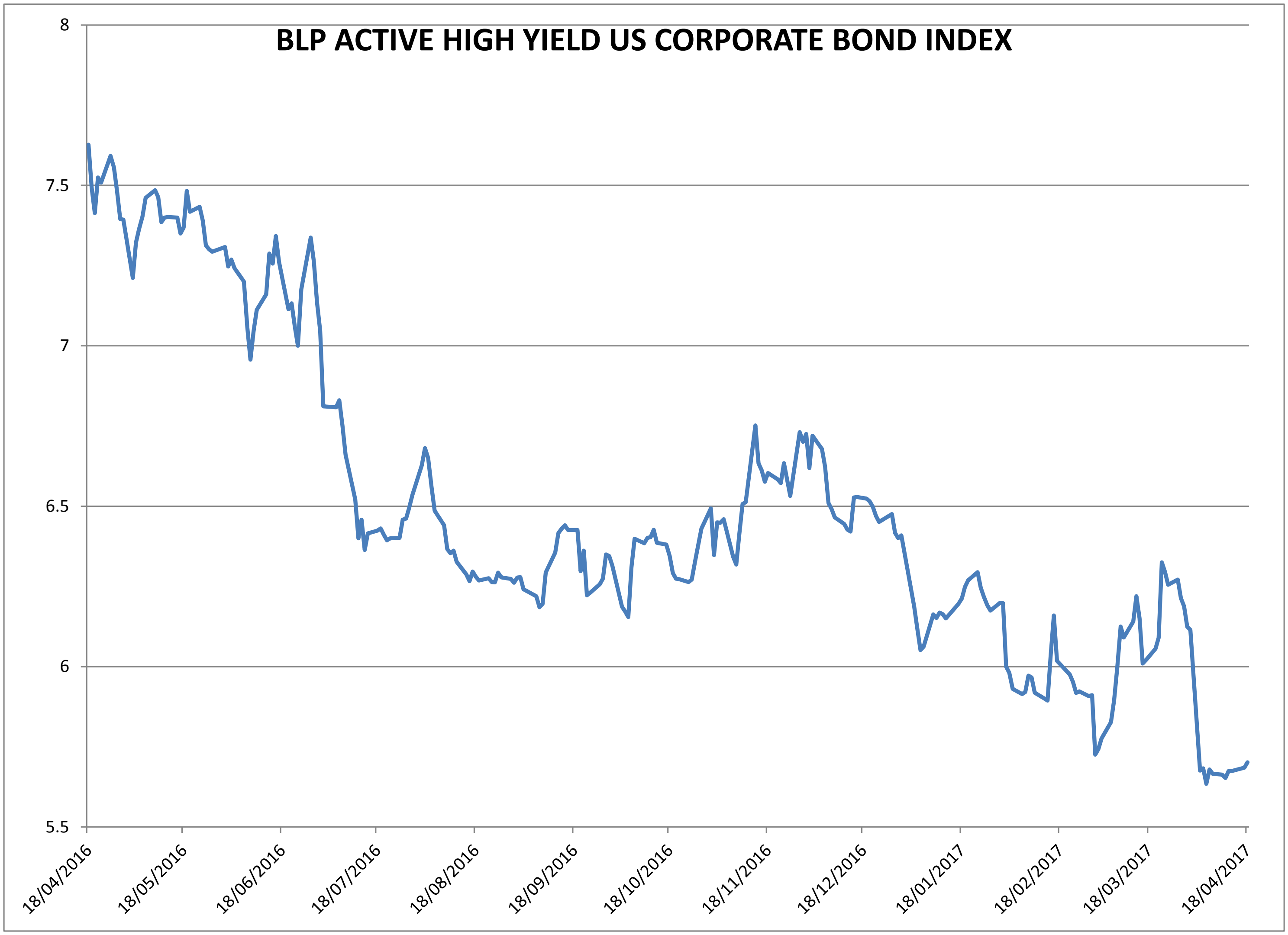
U.S. 10-Year Treasury



This chart displays the trend of the U.S. ten-year bond yield. It is too early to forecast that a new long-term trend has begun as there is considerable resistance at 2.6% and 3%.



The price of this long-term Canada bond has bounced off an important support level and is approaching the 200-day moving average.



High-yield bond yields have fallen in line with falling government yields.

Outlook

Global economic prospects have brightened at the same time that those for the U.S. have dimmed somewhat. The air is leaking out of the Trump reflation trade and thus the U.S. has returned to its slow growth, low inflation track. It is generally perceived that the Fed will raise rates two, perhaps three, more times this year. This attempt at normalizing interest rates should not dampen economic prospects as rates will still be low. Inflation does not pose near-term problems but as the economy approaches capacity, some acceleration in wage growth should appear. Our view remains that the ten-year U.S. note will trade in the 2% to 3% range this year. Its yield has pushed up against resistance at 2.60% twice and has fallen back both times.

As for Canada, our economy is improving steadily, but also is not generating much in the way of inflation pressure. Given the Fed's path to normalization and Canada's brightening outlook, our interest rates will likely track higher to their U.S. counterparts, despite what the Bank of Canada would like.

Strategy

We see little reason to alter our advice to remain fully invested in short duration corporate bonds diversified by credit and maturity. Those investors who have maintained their laddered approach have enjoyed positive returns at all maturities. As always, in the investment-grade portion of a fixed-income portfolio, we are ever mindful of credit risk and remain advocates of those credits non-cyclical in nature. Our emphasis remains on safety of principal.

Although we recommend up to 10% of a fixed-income portfolio be invested in high-yield credits, either by way of ETFs or via careful selection of individual bonds, we now counsel caution. High-yield bonds are near their lows in yield for the past twelve months and may have achieved most of their potential return. Should investment-grade bond yields continue to trend higher, there will be pressure on high-yield bonds although we expect that they will produce positive total returns.