MONTHLY FIXED INCOME UPDATE

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Interest Rate Summary	Dec-31-19	Nov-29-19	Dec-31-18	29-Dec-17	30-Dec-16	31-Dec-15	31-Dec-14
U.S.							
3-Month T-Bill	1.55%	1.58%	2.36%	1.38%	0.50%	0.16%	0.04%
2-Year Treasury	1.57%	1.53%	2.49%	1.89%	1.19%	1.31%	0.47%
10-Year Treasury	1.92%	1.78%	2.69%	2.41%	2.44%	2.27%	2.17%
Canada							
3-Month T-Bill	1.65%	1.65%	1.64%	1.05%	0.45%	0.51%	0.90%
2-Year Canada	1.69%	1.58%	1.86%	1.69%	0.74%	0.48%	0.99%
10-Year Canada	1.70%	1.46%	1.97%	2.04%	1.72%	1.39%	1.86%

Performance

	2019	2018	2017	2016	2015	2014	2013
DEX Universe Bond Index	6.87%	1.41%	2.52%	3.52%	3.52%	8.79%	-1.19%
DEX Federal Bond Index	3.73%	2.39%	0.13%	3.66%	3.66%	6.91%	-1.52%
DEX Provincial Bond Index	9.07%	0.66%	4.33%	4.14%	4.14%	12.18%	-2.70%
DEX All Corporate Index	8.05%	1.10%	3.38%	2.71%	2.71%	7.58%	0.84%
DEX "A" Corporate Index	9.65%	0.51%	4.42%	2.62%	2.62%	9.10%	-0.16%
DEX Real Return Bonds	8.02%	-0.05%	0.72%	2.79%	2.79%	13.18%	-13.1%
DEX High Yield Bonds	8.48%	2.15%	5.20%	13.79%	-5.58%	2.64%	6.87%

All sectors produced negative returns in December with the exception of high yield bonds. The returns for 2019 are impressive, with all sectors positive.

Comments:

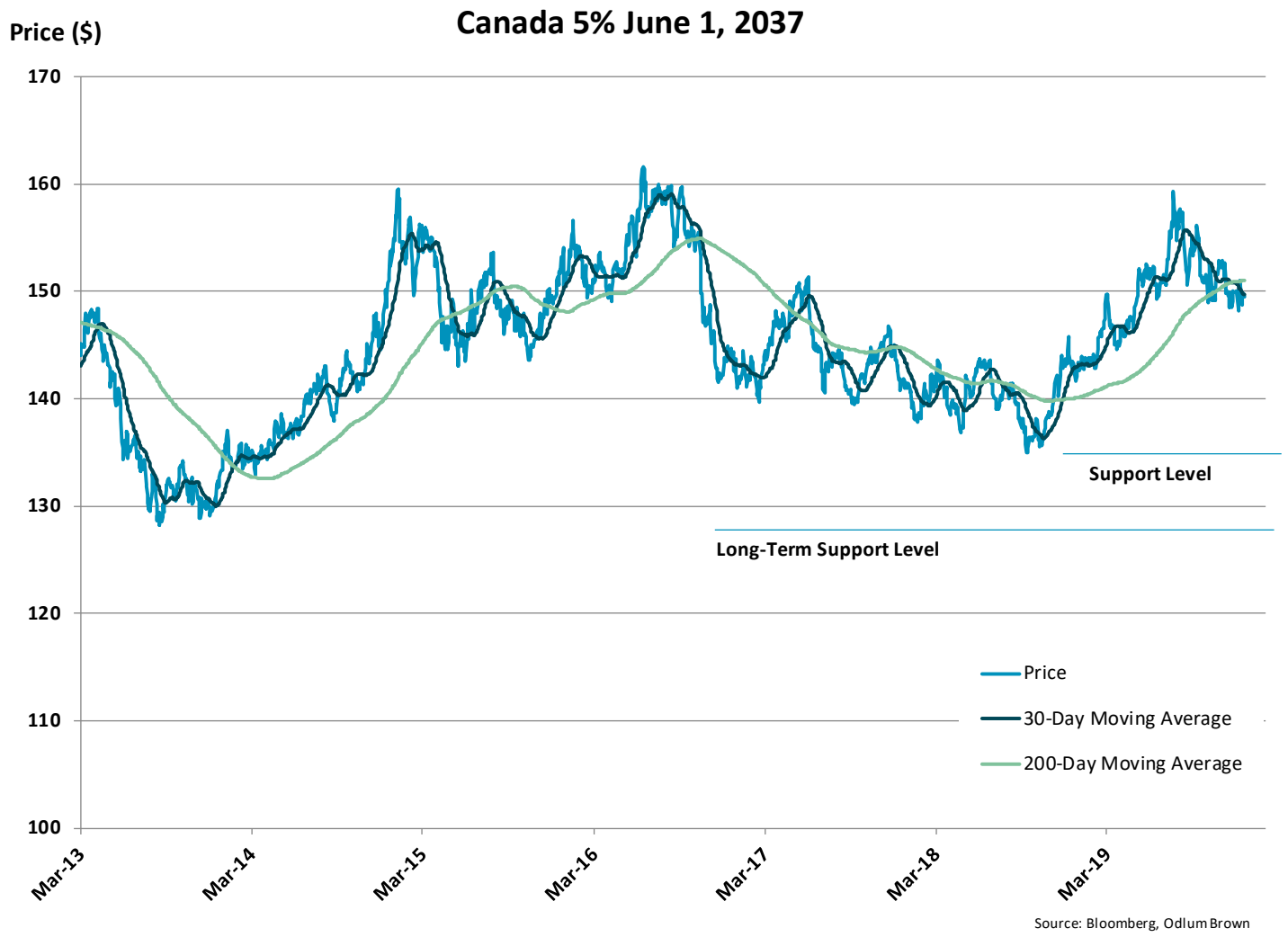
For the third consecutive month, bond yields rose in December with the U.S. ten-year bellwether bond tacking on a further 14 basis points to end the year at 1.92%. The yield curve, inverted as recently as August, reached its steepest level in a year, at 35 basis points. In the wake of geopolitical events in January, a flight to quality has pushed the ten-year down to 1.85%. Globally, sovereign bond yields also rose with the amount of bonds offering negative yields falling by one-third to a still enormous $ 11 trillion. The Swedish Central Bank raised its key lending rate to **zero**!!

Contributing to December's increase in bond yields was the trade deal announced between the U.S. and China. This welcome development meant no further tariff impositions but also held out the potential for tariff rollbacks in coming months. The positive fundamentals for the U.S. economy, namely: consumer confidence, tight employment, a strong housing sector and

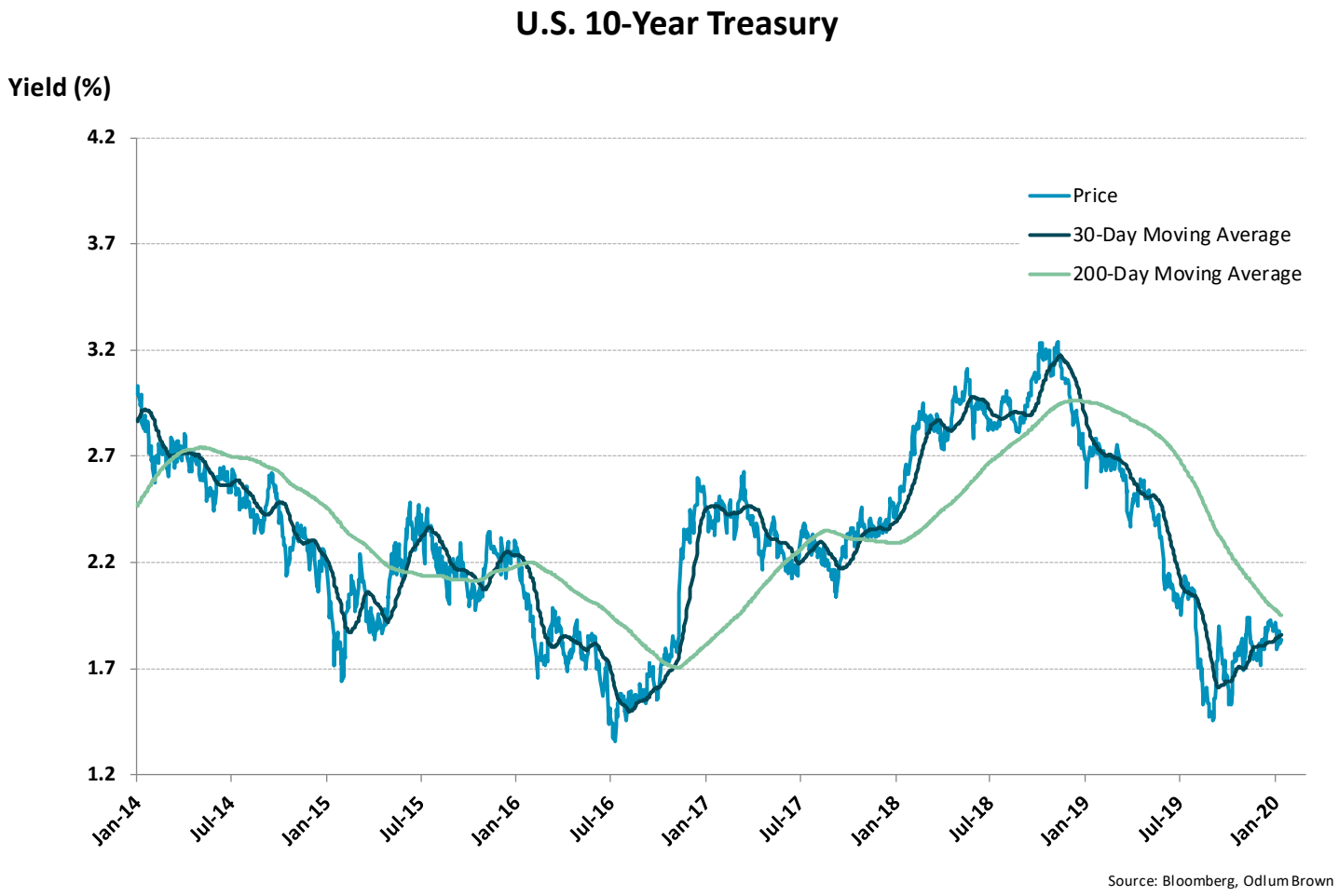
retail sales (including auto sales) remained. The Federal Reserve opted to leave the Fed Funds Rate unchanged, signaling that it was on the sidelines.

As for Canada, the Bank of Canada is squarely on the sidelines. Our yield curve turned modestly positive as the Canada ten-year yield rose by 24 basis points to reach 1.70% by year-end. The loonie continued to advance, making it the strongest currency versus the U.S. dollar. Despite a poor employment report in November, the labour market rebounded smartly in December. The Canadian economy gained in excess of 320,000 net new jobs last year, the best showing since 2007. This strength makes it easier for the Bank of Canada to stand pat.

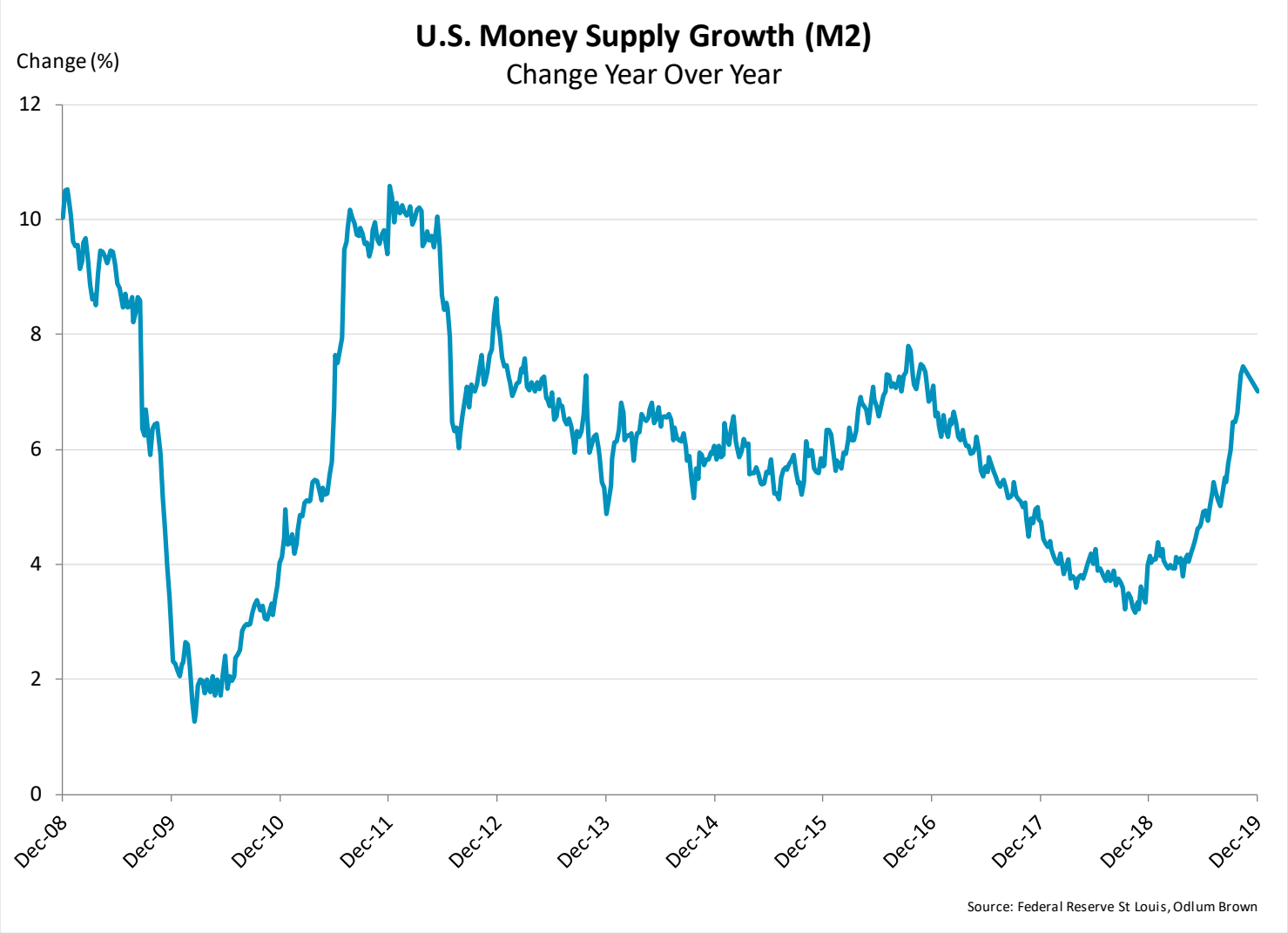
The corporate bond market produced strong returns of 9.65% for A-rated bonds and 8.48% for high yield in 2019.



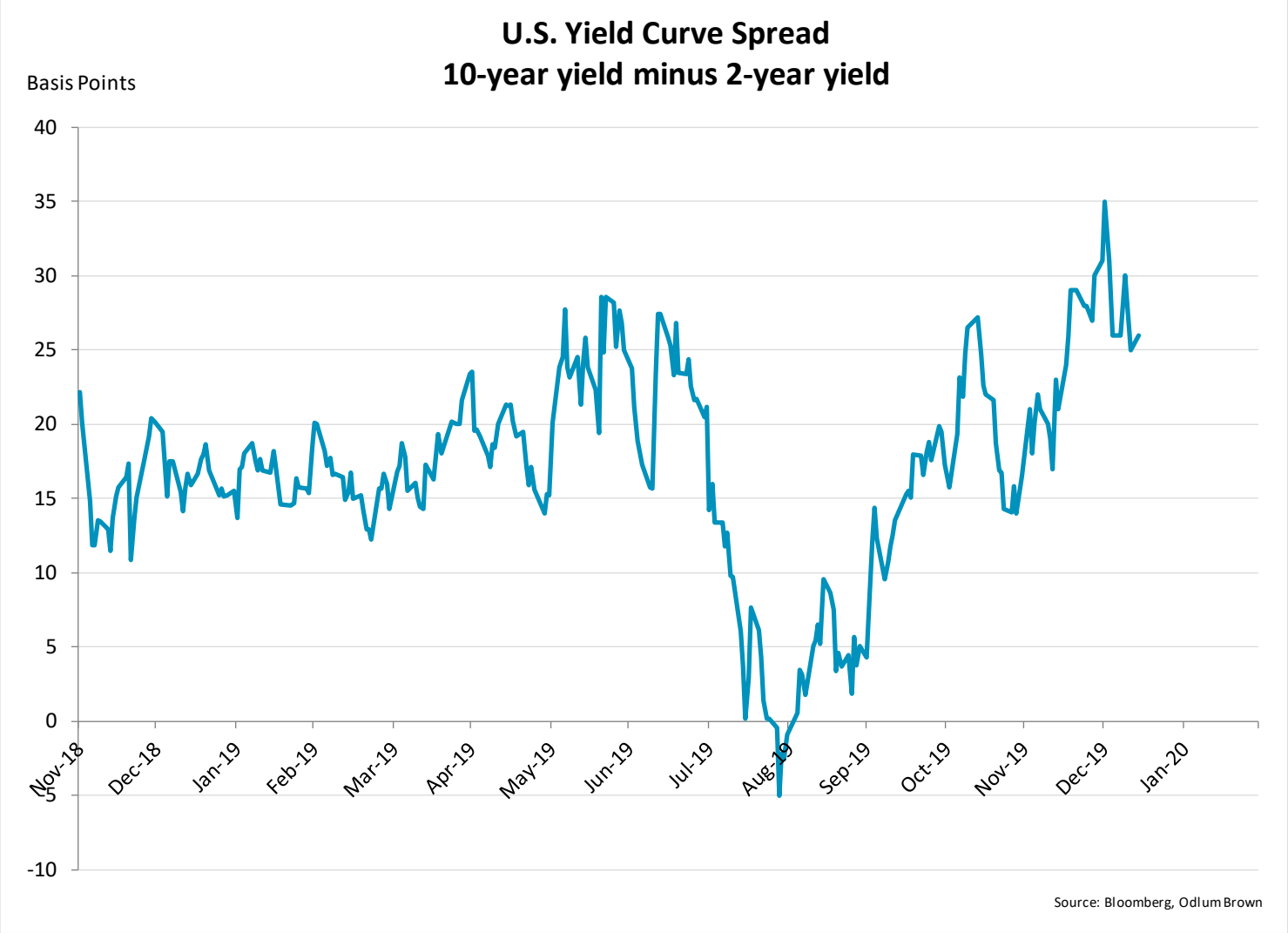
This bond sold off and is below all its moving averages.



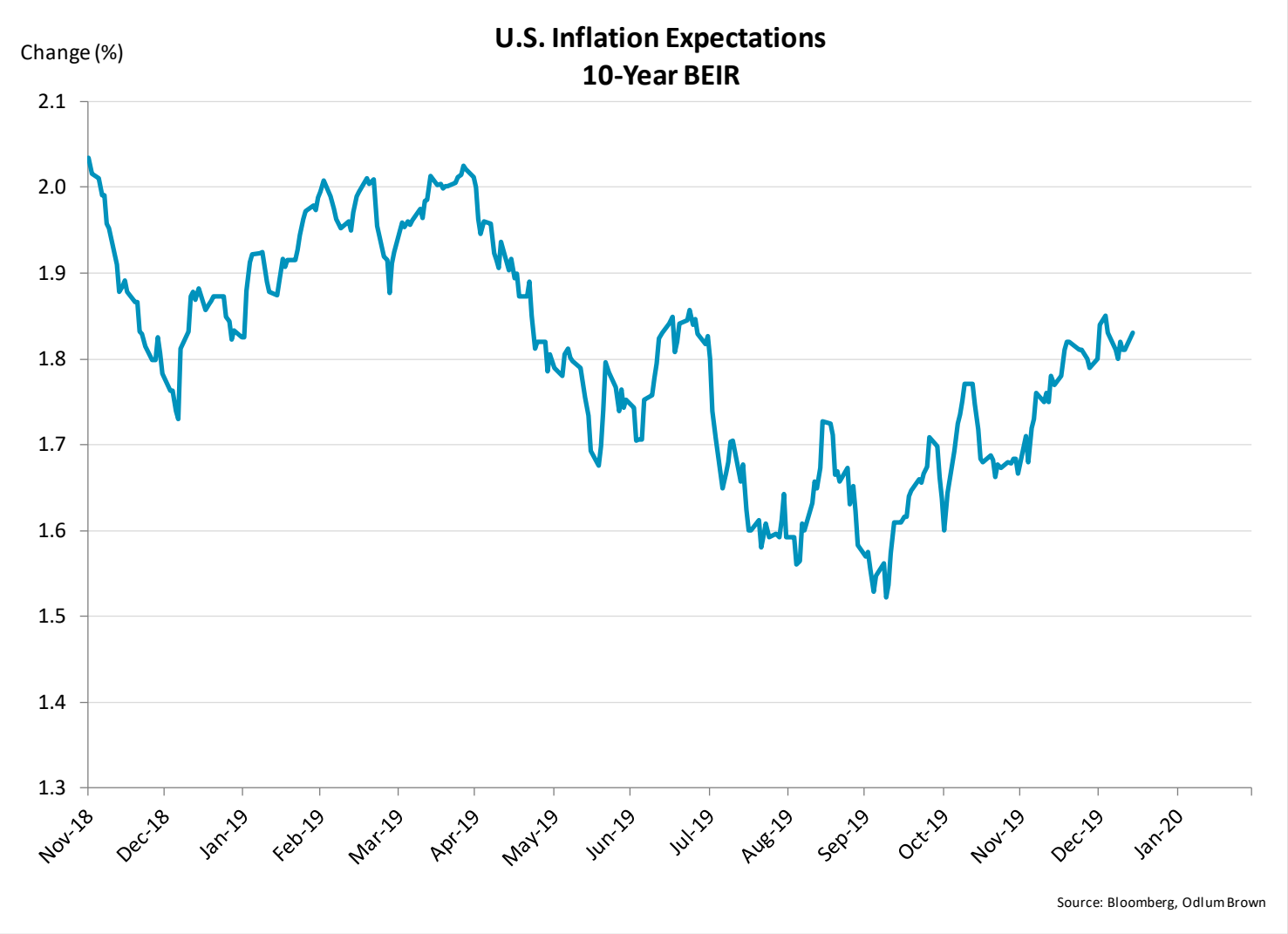
This global bellwether bond's yield moved above its 30-day moving average briefly but remains well below the important 200-day moving average. It is approaching an important technical junction.



This broad measure of money supply continues to grow at a positive pace, brightening the outlook for growth.



The yield curve steepened since being briefly inverted during the summer. It portends positive growth.



Inflation expectations are gradually moving higher.

Outlook

We believe the fundamentals are in place for further increases in bond yields this year. Global economic growth seems to have bottomed with modest strength emerging. There is a growing belief that monetary policy has done its part and now is the time for concerted fiscal stimulus. Thus far, such stimulus has been scattered but the momentum is growing. The net result will be to further buttress global economic growth. At present, and assuming further easing in global trade tensions, global growth is estimated at 2.8% for 2020 with Canada and the U.S. forecast to grow at 2%.

The odds of a recession have fallen markedly. With the Fed and the Bank of Canada on the sidelines and supporting the front end of the yield curve, the odds favour a further increase in longer-term bond yields and a steeper yield curve. Inflation has

remained subdued, in the 2% region with no signs of acceleration. Similarly, wage growth has been anemic, despite 40-year lows in unemployment.

We forecast that the U.S. ten-year note will breach 2% in the near term and possibly trend to 2.25% in the first half of 2020. Corporate bond yields will remain tight to government yields with little stress evident in the credit markets.

Strategy

It is unlikely that fixed income investors will reap similar returns in 2020 as they enjoyed in 2019. Should longer-term bond yields rise as we forecast, it will be difficult for those bonds to produce positive returns. We continue to counsel a high-quality, short duration approach to bond investments as protection of principal is paramount. We have long advocated the laddered approach when constructing a fixed income portfolio. There is no reason to alter this strategy as it removes the guesswork from fixed income investing. Therefore, a ladder composed of high-quality short-term corporate bonds and GICs will continue to produce positive returns while preserving principal.

For further discussion, please speak to your investment advisor.