MONTHLY FIXED INCOME UPDATE

Hank Cunningham **July 10, 2017**

Interest Rate Summary	30-Jun-17	30-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13	31-Dec-12
U.S.						
3-Month T-Bill	1.01%	0.50%	0.16%	0.04%	0.07%	0.04%
2-Year Treasury	1.38%	1.19%	1.31%	0.47%	0.38%	0.25%
10-Year Treasury	2.31%	2.44%	2.27%	2.17%	3.03%	1.76%
Canada						
3-Month T-Bill	0.70%	0.45%	0.51%	0.90%	0.92%	0.92%
2-Year Canada	1.10%	0.74%	0.48%	0.99%	1.14%	1.14%
10-Year Canada	1.76%	1.72%	1.39%	1.86%	2.76%	1.80%

Performance

	June 2017	Year-to-Date	2016	2015	2014	2013	2012
DEX Universe Bond Index	-1.17%	2.36%	3.52%	3.52%	8.79%	-1.19%	2.65%
DEX Federal Bond Index	-1.45%	0.85%	3.66%	3.66%	6.91%	-1.52%	2.11%
DEX Provincial Bond Index	-1.04%	3.53%	4.14%	4.14%	12.18%	-2.70%	
DEX All Corporate Index	-0.96%	2.87%	2.71%	2.71%	7.58%	0.84%	6.22%
DEX “A” Corporate Index	-0.77%	3.94%	2.62%	2.62%	9.10%	-0.16%	6.85%
DEX Real Return Bonds	-1.87%	0.07%	2.79%	2.79%	13.18%	-13.1%	
DEX High-Yield Bonds	0.46%	4.96%					

Comments:

Performance was negative in all sectors of the bond market in June save for the High Yield sector. Corporates outperformed Governments while Real Return bonds sagged noticeably.

The U.S. ten-year note finished the month eleven basis points higher at 2.31%, after touching a low for the year at 2.12%. Since month-end, yields have continued to move up, now sitting at 2.38%. The yield on the two-year note rose by a mere ten basis points, contributing to a steepening of the yield curve, ending the recent trend towards a flatter curve.

Canada experienced a sharper increase in bond yields. Five-year Canadas rose by over fifty basis points and now sit at 1.47%, while ten-year yields rose by thirty-four basis points for the month and have tacked on an additional twelve basis points since month-end.

What happened?

After a continuation of the recent trends of average economic data and tepid inflation, four major central banks - the Federal Reserve, the Bank of England, the Bank of Canada and, most importantly, the European Central Bank - moved to hawkish positions.

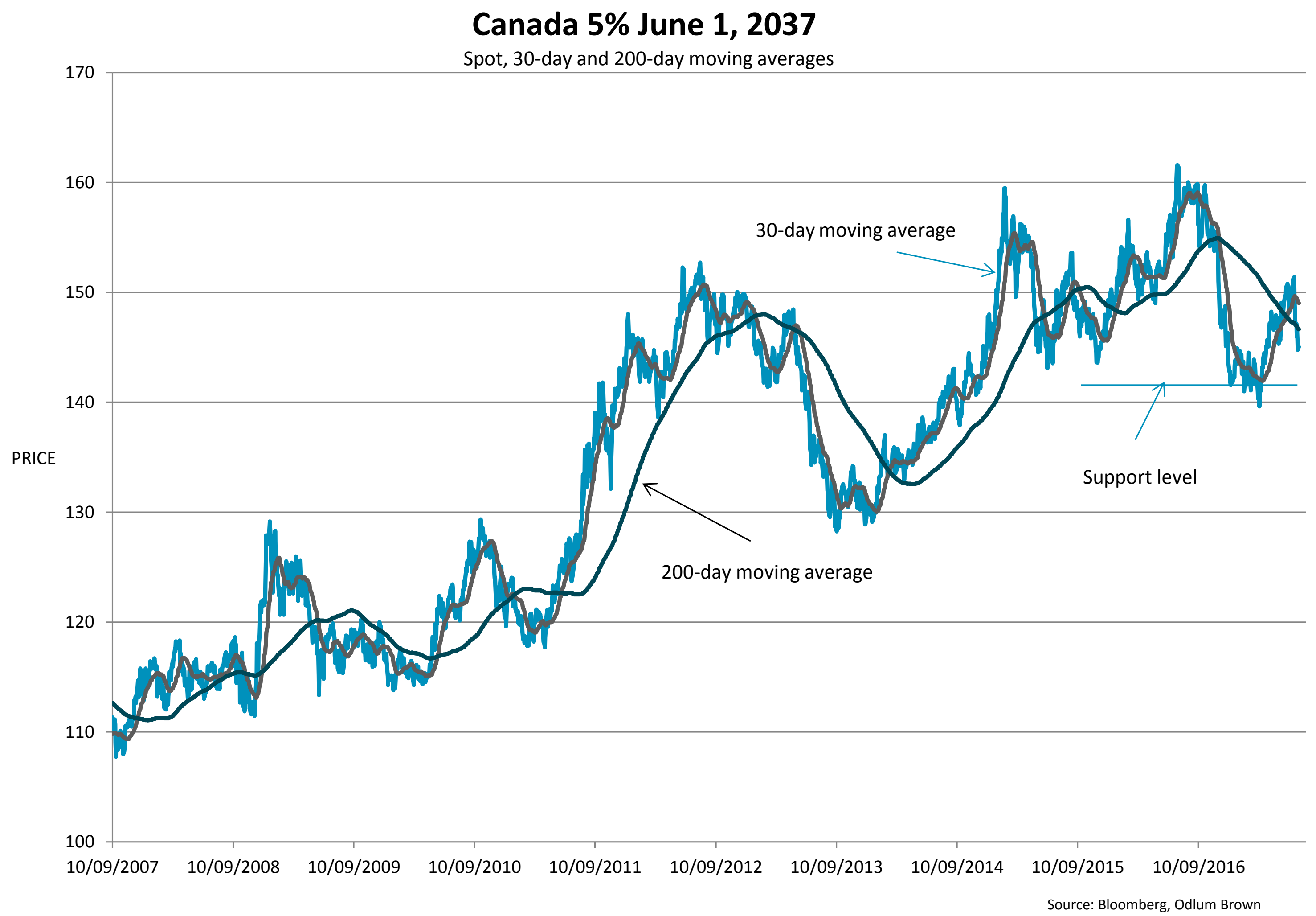
Bond markets turned on remarks made by ECB head, Mario Draghi: “All the signs now point to a strengthening and broad recovery in the euro area. Deflationary forces have been replaced by reflationary ones.”

The Bank of Canada left little doubt that it would begin to normalize its overnight rate after seven years of leaving it at 0.5%.

From that point on, the Canadian economy reeled off a series of positive releases in employment, retail sales and manufacturing sales. The data was sufficiently encouraging for the Canadian GDP consensus to rise to 2.8% for 2017. Canadian bond yields rose sharply and the Loonie continued to gain ground.

As to the Federal Reserve, its rhetoric has remained on the hawkish side and, additionally, it outlined specific first steps to begin unwinding its balance sheet.

This chart displays the trend of the U.S. ten-year bond yield. It has bounced off the low of the year of 2.12% and appears set to move higher in yield.



The price of this long-term Canada bond has fallen sharply after an impressive rebound from long-term support.