Monthly Fixed Income Update

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Interest Rate Summary	28-Apr-17	30-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13	31-Dec-12
U.S.						
3-Month T-Bill	0.80%	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	2.28%	2.44%	2.27%	2.17%	3.03%	1.76%
Canada						
3-Month T-Bill	0.52%	0.45%	0.51%	0.90%	0.92%	0.92%
2-Year Canada	0.72%	0.74%	0.48%	0.99%	1.14%	1.14%
10-Year Canada	1.55%	1.72%	1.39%	1.86%	2.76%	1.80%

Performance

	Apr-2017	Year-to-Date	2016	2015	2014	2013	2012
DEX Universe Bond Index	1.43%	2.69%	3.52%	3.52%	8.79%	-1.19%	2.65%
DEX Federal Bond Index	1.00%	1.65%	3.66%	3.66%	6.91%	-1.52%	2.11%
DEX Provincial Bond Index	1.82%	3.23%	4.14%	4.14%	12.18%	-2.70%	
DEX All Corporate Index	1.53%	3.38%	2.71%	2.71%	7.58%	0.84%	6.22%
DEX "A" Corporate Index	2.11%	4.22%	2.62%	2.62%	9.10%	-0.16%	6.85%
DEX Real Return Bonds	2.11%	0.80%	2.79%	2.79%	13.18%	-13.1%	
DEX High Yield Bonds	0.39%	3.60%					

Comments:

Performance was positive in all sectors of the bond market in April. Investment-grade corporate bonds led the way with provincial bonds not far behind. High yield bonds lagged for the second straight month.

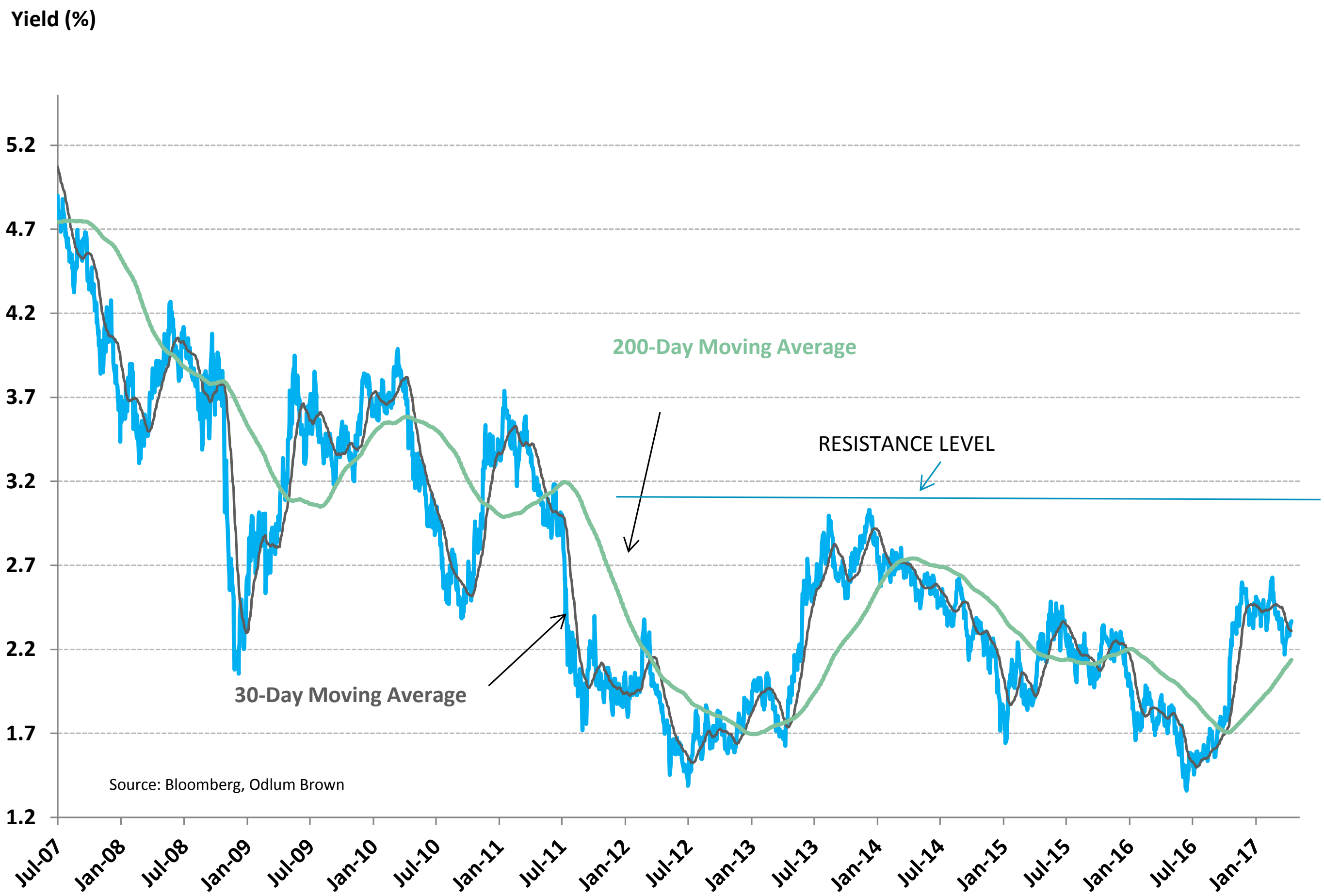
The U.S. ten-year note finished the month eleven basis points lower at 2.28%. The yield on the two-year note was unchanged, thus underscoring a flattening of the yield curve.

May began with a solid increase of 211,000 non-farm jobs in the U.S. and a slide in the unemployment rate to 4.4%, a ten-year low. Average hourly earnings continued to grow at a tepid rate. The Federal Reserve, at its May 3rd FOMC meeting, left rates unchanged but downplayed the weak first quarter GDP results, citing seasonal factors, and left the door open for a June increase in the Fed Funds rate.

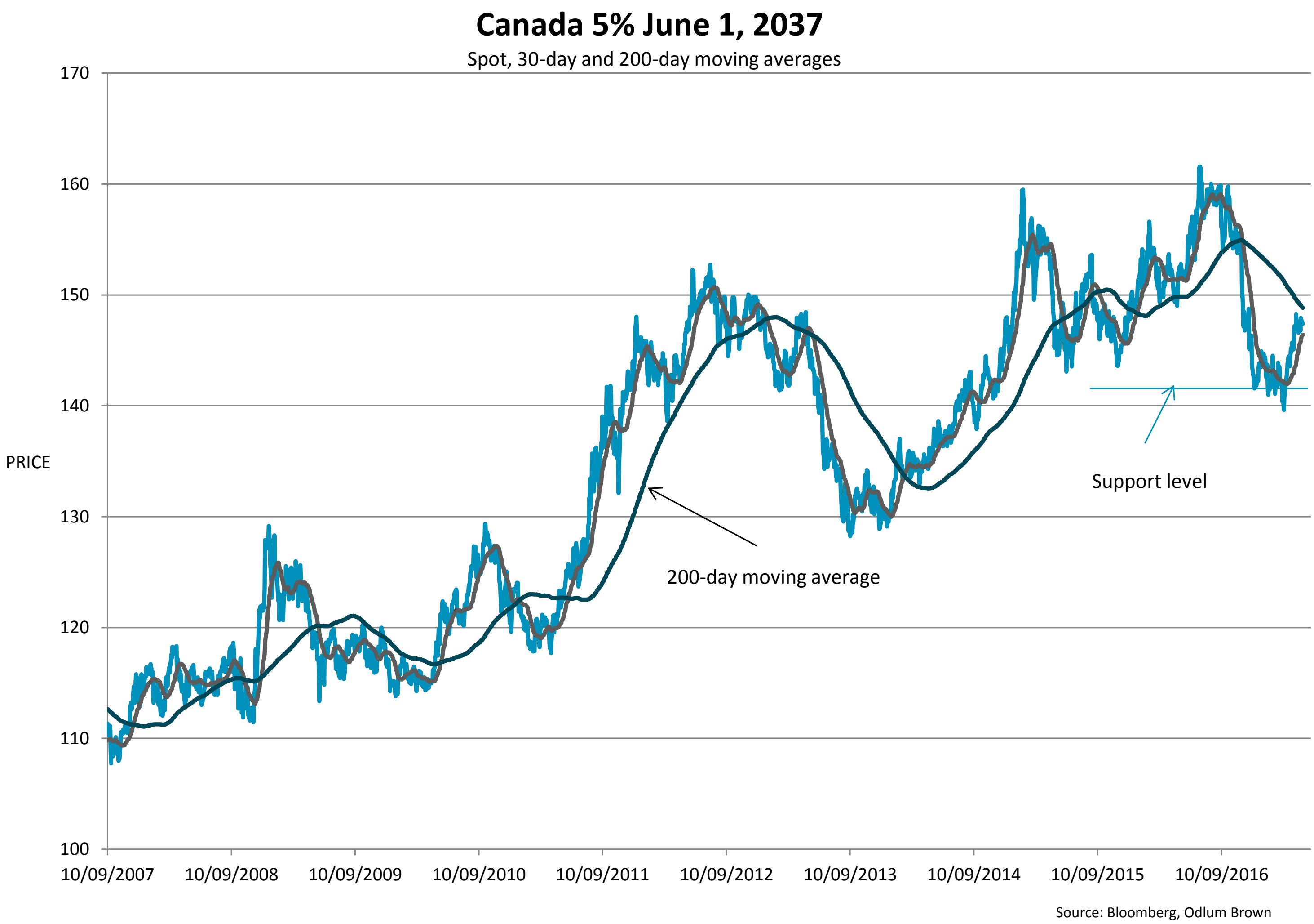
While the Canadian economy continued to throw off good data, the Loonie was hammered as commodity prices and oil prices sunk. In addition, some trade sabre-rattling by the U.S. Administration upset currency traders.

Economic growth in Europe continued to advance and inflation there also picked up.

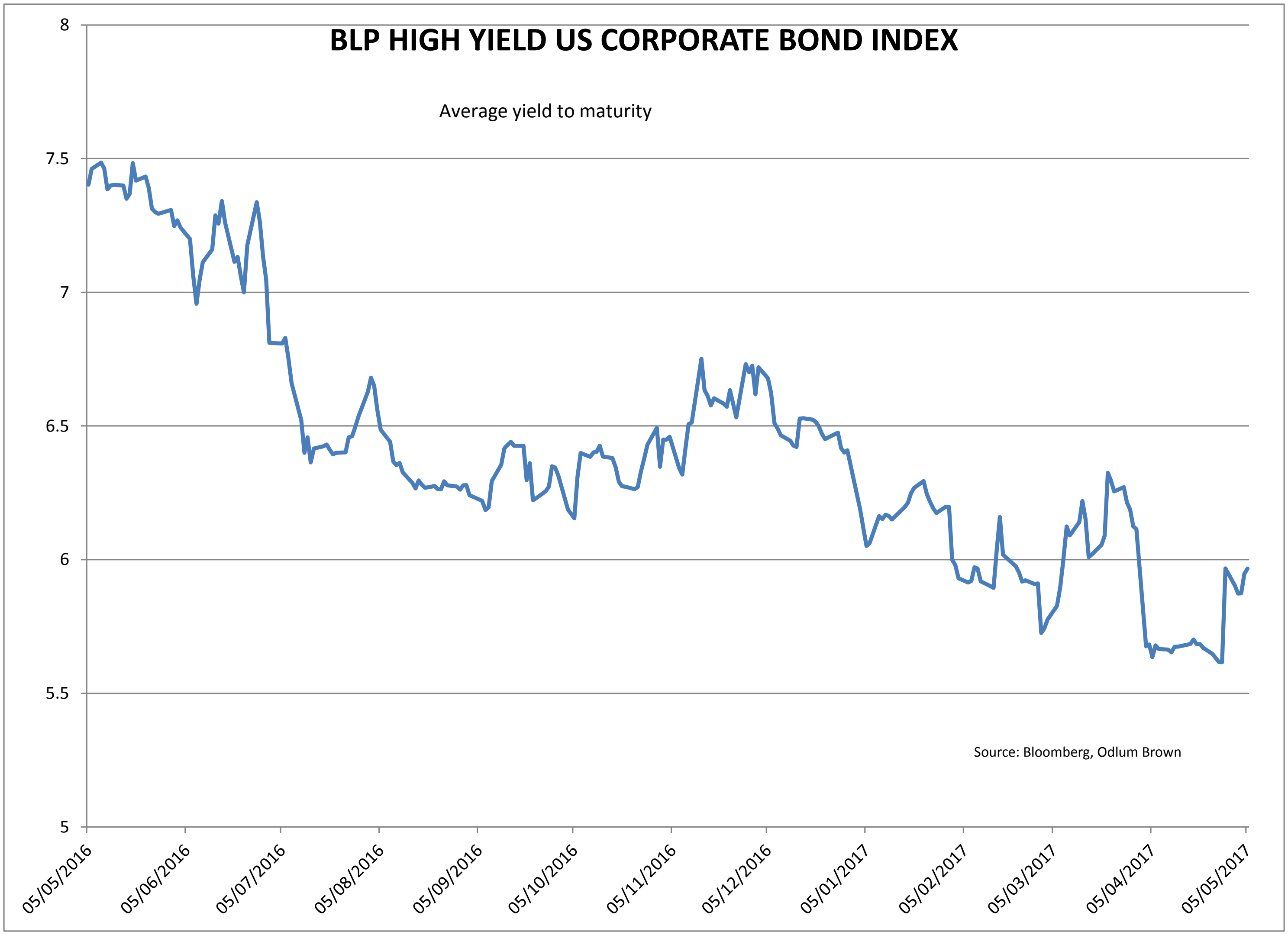
U.S. 10-Year Treasury



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 but remains well below the 200-day moving average.



High-yield bond yields have risen from their lows of the year, as have Government yields.

Outlook

The era of slow growth continues with GDP estimates for the developed world remaining in the area of 2.5% with modest glimmerings of uptick from this level. Inflation continues to be tepid but it is stirring.

It is likely that the Fed will raise the Fed Funds Rate in June following the latest strong employment report, easing global tensions, and the victory of the moderate candidate in France.

Bond yields have risen by ten basis points thus far in May. We believe that the bias for higher bond yields remains in place and that, given moderate but decent growth prospects plus mild acceleration in inflation, the ten-year Treasury note will move up to the three per cent level before year-end.

Corporate bond issuance has picked up significantly in the last month but with corporate balance sheets strengthening, we see little impetus for wider spreads between corporate and government bonds.

The Canadian economy continues to display resilience and our growth rate may match that of our southern neighbour. Our currency has been battered mostly by weak commodity and energy prices and it is difficult to see a rebound in the short term.

Strategy

With our view that the bias is upwards for bond yields in North America, we advocate a bond portfolio featuring a short duration of three to four years and a diverse selection of investment-grade corporates with an emphasis on quality. Bonds offer little value at today's yields and thus, protection of principal remains of paramount concern.

There is room for investment in high yield bonds but we prefer ETFs that feature a broad spectrum of the North American economy rather than individual high yield bonds. XHY-T remains our preferred vehicle.