



## MONTHLY FIXED INCOME UPDATE

Hank Cunningham

September 12, 2017

Interest Rate Summary	31-Aug-17	30-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13	31-Dec-12
<b>U.S.</b>						
3-Month T-Bill	1.00%	0.50%	0.16%	0.04%	0.07%	0.04%
2-Year Treasury	1.33%	1.19%	1.31%	0.47%	0.38%	0.25%
10-Year Treasury	2.12%	2.44%	2.27%	2.17%	3.03%	1.76%
<b>Canada</b>						
3-Month T-Bill	0.77%	0.45%	0.51%	0.90%	0.92%	0.92%
2-Year Canada	1.27%	0.74%	0.48%	0.99%	1.14%	1.14%
10-Year Canada	1.85%	1.72%	1.39%	1.86%	2.76%	1.80%

### Performance

	Aug-2017	Year-to-Date	2016	2015	2014	2013	2012
DEX Universe Bond Index	1.41%	1.83%	3.52%	3.52%	8.79%	-1.19%	2.65%
DEX Federal Bond Index	1.51%	1.54%	3.66%	3.66%	6.91%	-1.52%	2.11%
DEX Provincial Bond Index	1.84%	2.63%	4.14%	4.14%	12.18%	-2.70%	
DEX All Corporate Index	1.14%	2.61%	2.71%	2.71%	7.58%	0.84%	6.22%
DEX "A" Corporate Index	1.27%	3.45%	2.62%	2.62%	9.10%	-0.16%	6.85%
DEX Real Return Bonds	2.26%	-0.99%	2.79%	2.79%	13.18%	-13.1%	
DEX High Yield Bonds	1.05%	6.72%					

### Comments:

Performance was positive in all sectors of the bond market in August with government bonds leading the way. Corporates did turn in positive performances however. The High Yield sector was the laggard in August.

The U.S. ten-year note fell 18 basis points in August after rising for the two previous months. U.S. economic data was sluggish, inflation remained soft and the Federal Reserve became less hawkish.

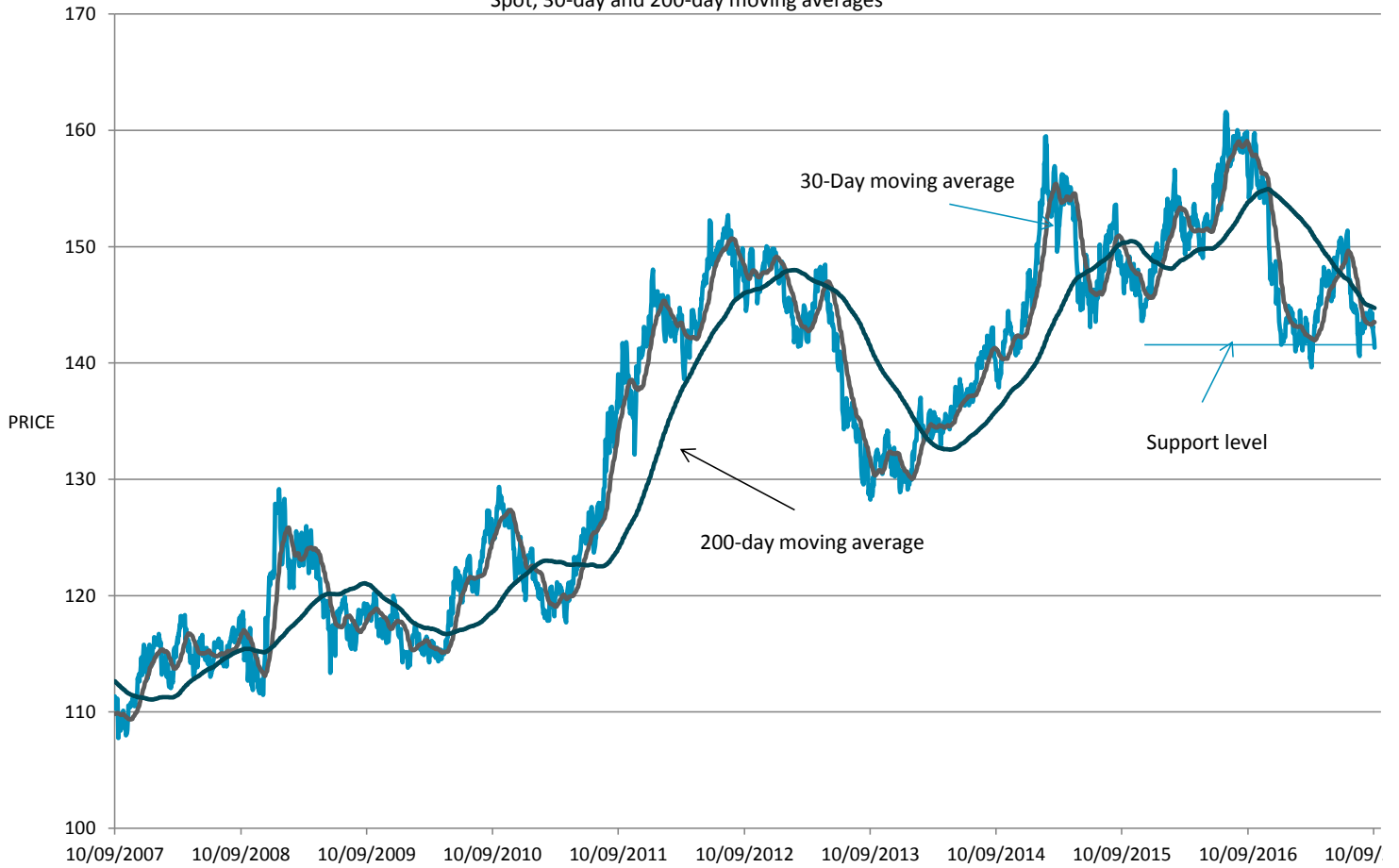
Meanwhile, growth in the rest of the world continued to accelerate in a synchronized fashion with even Europe and Japan recording 2% growth year-over-year.

The big surprise was Canada, which reported a strong growth rate of 3.7% for the previous 12 months. It was a balanced performance for the Canadian economy. This prompted the Bank of Canada to raise its overnight rate by 25 basis points to 1% on September 6, catching many pundits by surprise. Market yields rose swiftly; two-year, five-year and 10-year Government of Canada bonds have risen 85, 83 and 65 basis points respectively since early June. Moreover, the Canadian dollar continued to rise, touching US\$ 0.8250, up 13% from its lows in May.



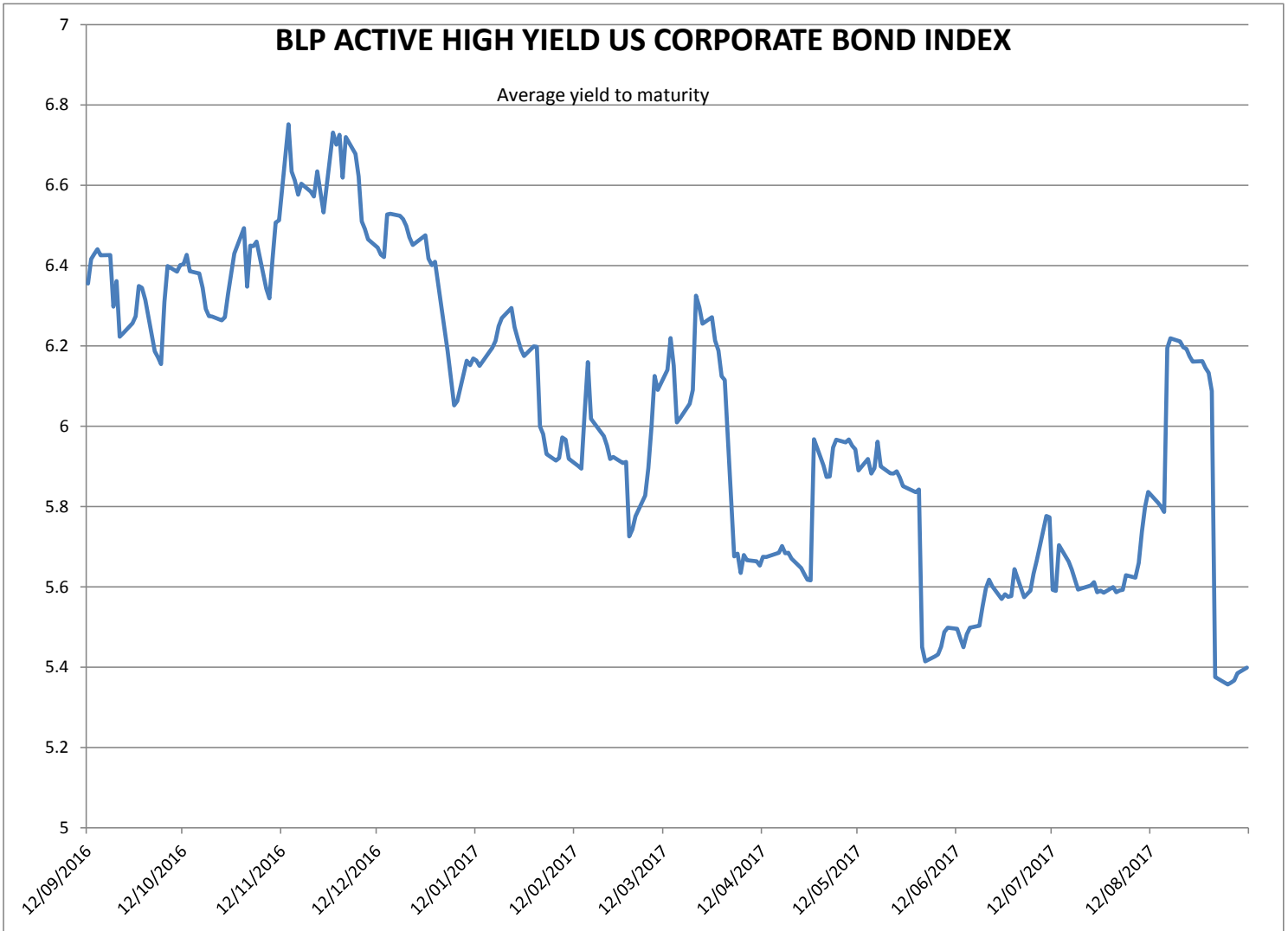
# Canada 5% June 1, 2037

Spot, 30-day and 200-day moving averages



Source: Bloomberg, Odium Brown

**The price of this long-term Canada bond fell sharply, actually falling below an important support line.**



**High-yield bond yields, after rising for several months, fell sharply along with government bond yields.**



**This chart displays the dramatic increase in Canadian yields vis-à-vis their American counterparts.**

**Outlook**

Of late, yields on U.S. Treasury bonds have been driven lower by a flight-to-quality response, as geopolitical tensions caused investors to invest in the safe-haven of government bonds. Growth has been picking up everywhere in the world, except in the U.S. There, the economy has muddled along at a 2% pace, accompanied by no inflation. Thus, it seems likely that the Federal Reserve will eschew any more increases in the Federal Funds Rate for the next few months.

With the safe-haven bid now weakening, market yields are rising but from low levels. It is difficult to foresee much higher yields though. U.S. growth finally appears to be picking up, aided by increased export demand from global economies.

Corporate bond spreads widened somewhat in August but have stabilized with little signs of further widening.

The Federal Reserve is about to begin unwinding its bloated balance sheet and, at the margin, this is bearish for bond prices.

## Strategy

We see little reason to alter the strategy of maintaining a high-quality, laddered fixed income portfolio with a relatively short duration. This is a time when protection of principal becomes of paramount importance. Where possible and practical, we favour upgrading the quality of portfolios as there are some danger signals emerging in high yield credit markets.

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