MONTHLY FIXED INCOME UPDATE

Hank Cunningham

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Interest Rate Summary	Mar-29-19	Dec-31-18	29-Dec-17	30-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13
U.S.							
3-Month T-Bill	2.39%	2.36%	1.38%	0.50%	0.16%	0.04%	0.07%
2-Year Treasury	2.26%	2.49%	1.89%	1.19%	1.31%	0.47%	0.38%
10-Year Treasury	2.41%	2.69%	2.41%	2.44%	2.27%	2.17%	3.03%
Canada							
3-Month T-Bill	1.66%	1.64%	1.05%	0.45%	0.51%	0.90%	0.92%
2-Year Canada	1.55%	1.86%	1.69%	0.74%	0.48%	0.99%	1.14%
10-Year Canada	1.62%	1.97%	2.04%	1.72%	1.39%	1.86%	2.76%

Performance

	2019 YTD	2018	2017	2016	2015	2014	2013
DEX Universe Bond Index	3.91%	1.41%	2.52%	3.52%	3.52%	8.79%	-1.19%
DEX Federal Bond Index	2.37%	2.39%	0.13%	3.66%	3.66%	6.91%	-1.52%
DEX Provincial Bond Index	5.24%	0.66%	4.33%	4.14%	4.14%	12.18%	-2.70%
DEX All Corporate Index	4.03%	1.10%	3.38%	2.71%	2.71%	7.58%	0.84%
DEX "A" Corporate Index	4.69%	0.51%	4. 42%	2.62%	2.62%	9.10%	-0.16%
DEX Real Return Bonds	5.13%	-0.05%	0.72%	2.79%	2.79%	13.18%	-13.1%
DEX High Yield Bonds	4.02%	2.15%	5.20%	13.79%	-5.58%	2.64%	6.87%

Corporate bonds continued their positive performance in March but Provincial bonds and Real Return bonds outperformed. High yield bonds were also positive. Overall, long duration bonds were the best performers.

Comments

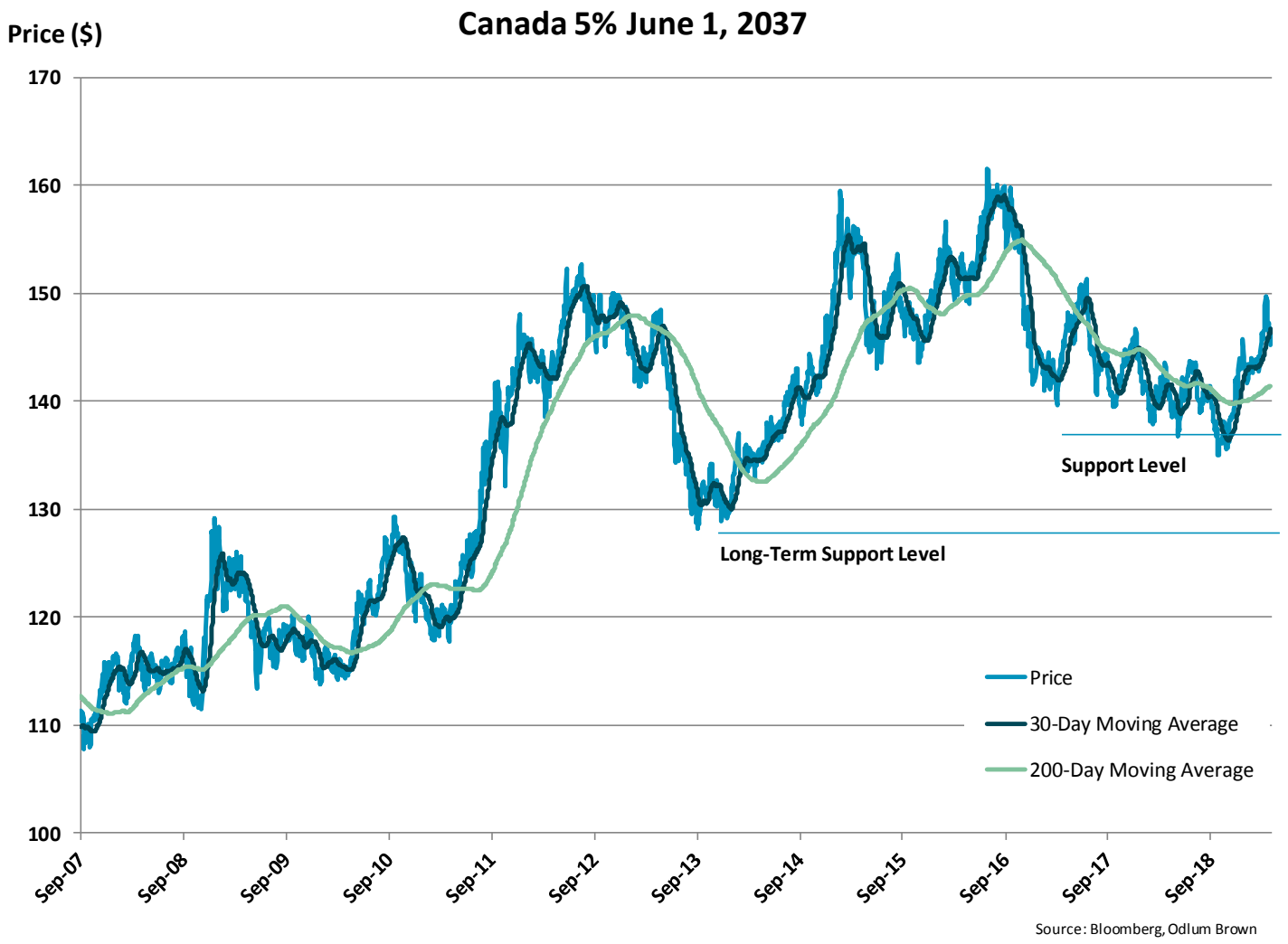
Bond yields plunged in March. U.S. and Canadian ten-year bonds fell by 32 basis points to one-year lows. The catalyst for this slide emanated in Europe where Germany reported a sharp drop in its PMI, well below 50, pushing German 10-year Bund yields below zero. The yield curve flattened, inverting briefly, bringing an onslaught of recession talk.

On the Central Bank watch, the Fed produced dovish comments, virtually eliminating any chance of rate hikes in 2019. The Central Banks of Canada, Europe and Australia adopted similar postures.

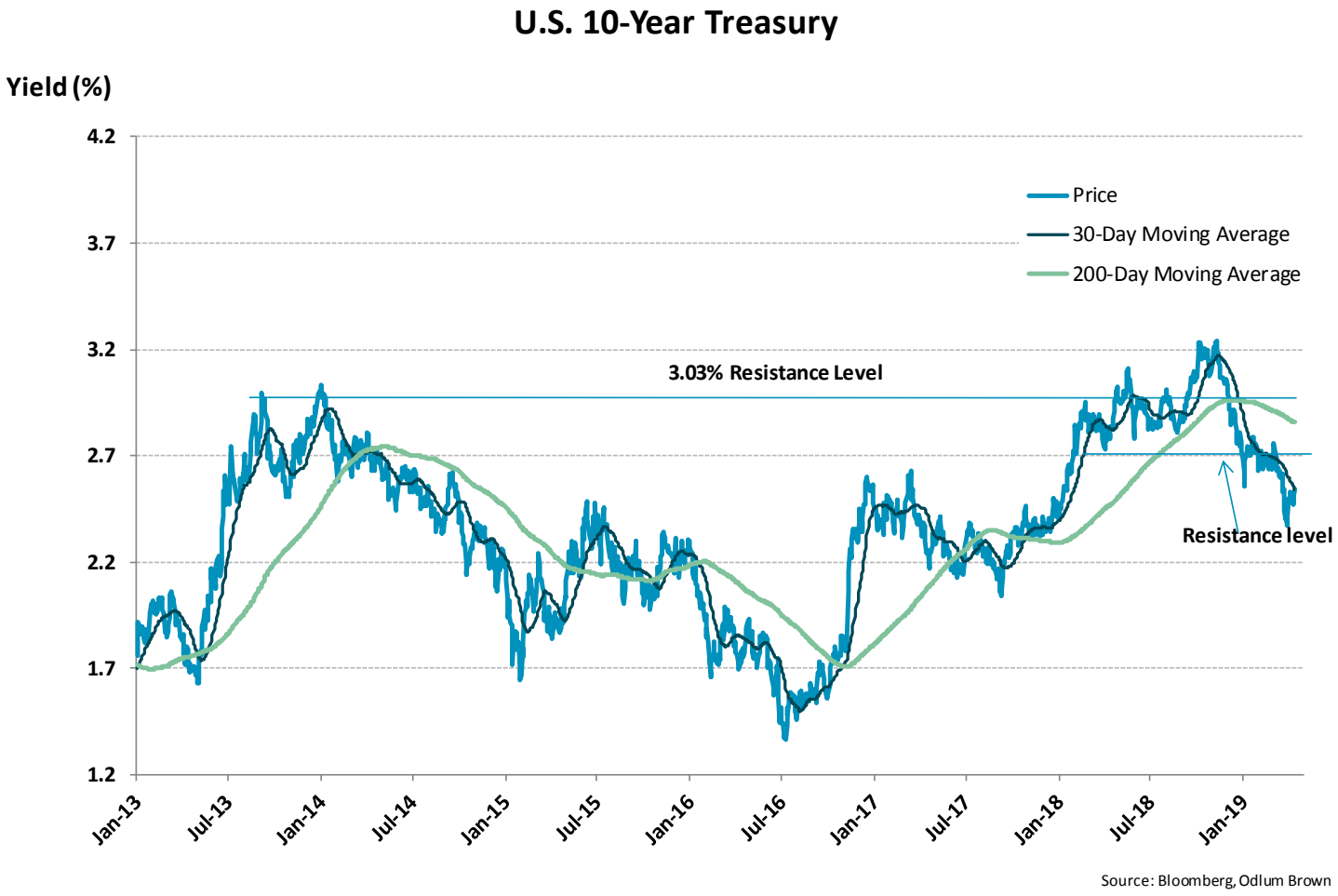
On the economic front, global growth, according to the IMF, should equal 3.3% this year and 3.6% in 2020. The U.S. employment market appeared to stall with a meager 33,000 new non-farm payrolls in February, but bounced back to a more robust 196,000 in March. Moreover, initial jobless claims fell to record lows. To be sure, there was some weakness in parts of the economy, but housing starts snapped back and retail sales, durable goods and consumer sentiment were decent.

Canada experienced a soft patch, with weakness prevalent in the employment market as well as in retail sales and trade. The loonie languished despite ongoing firmness in energy prices.

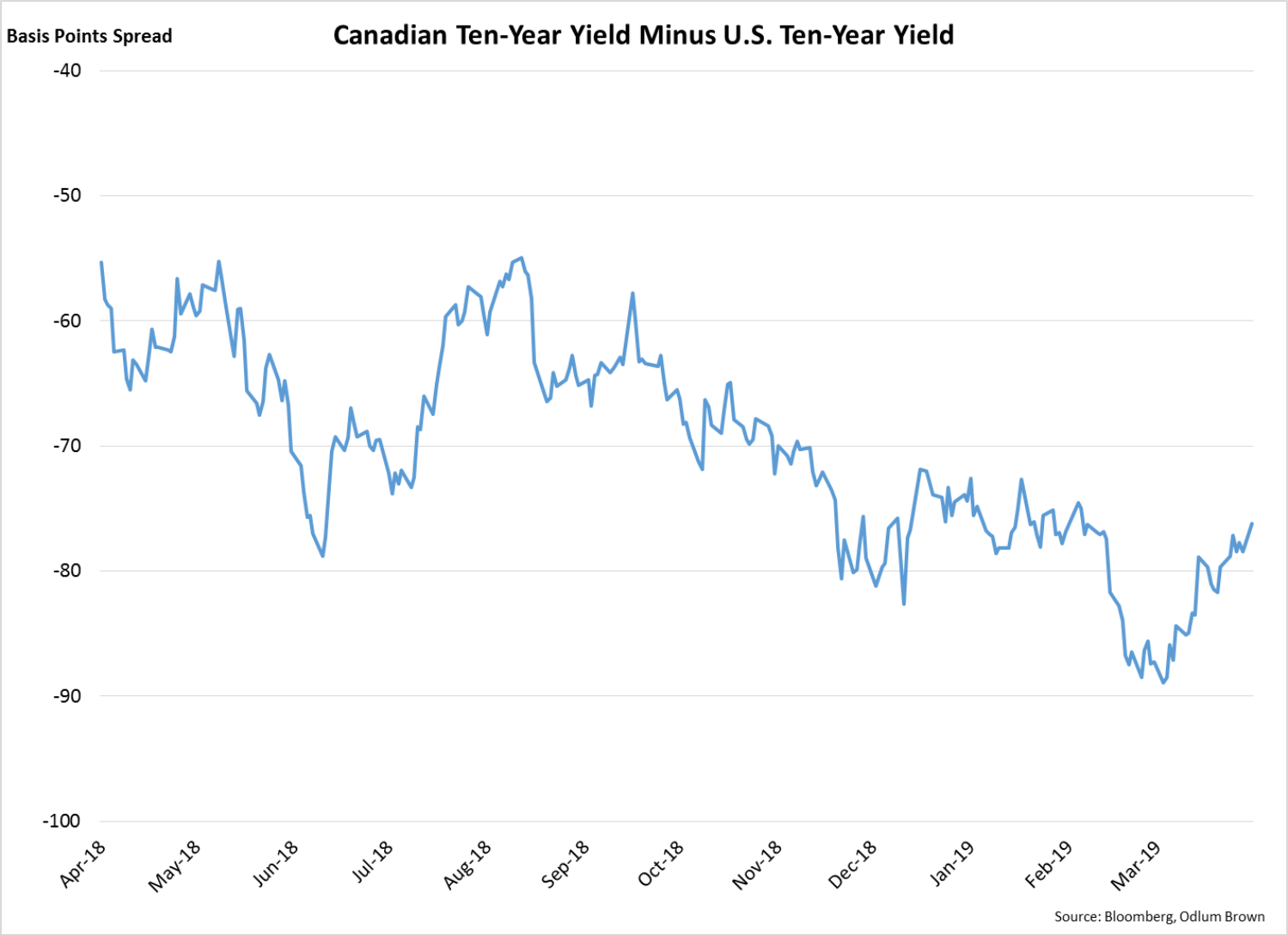
Overall, global growth has cooled but remains positive, monetary tightening has ended, inflation is benign and wage growth remains moderate.



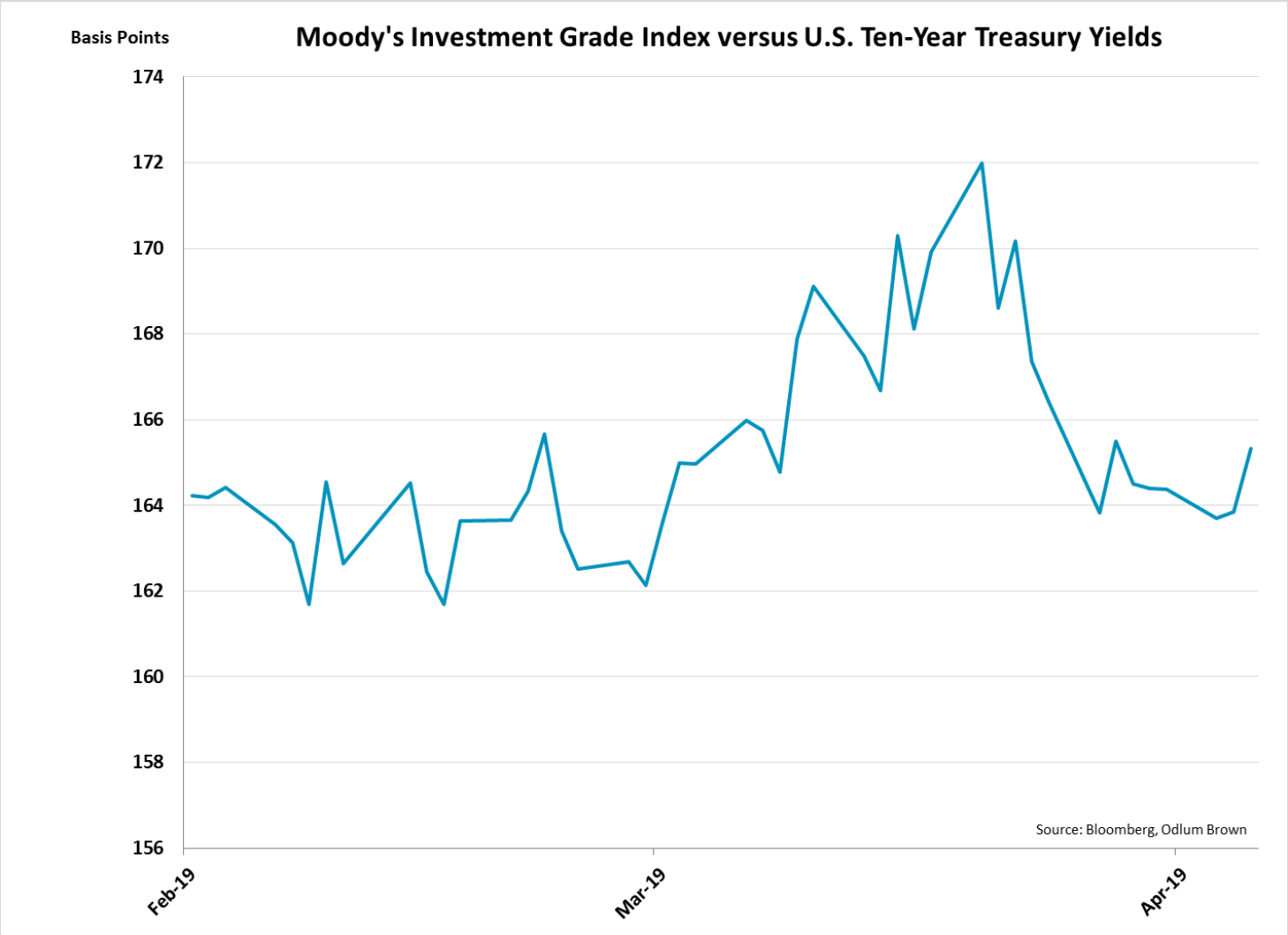
The price of this long-term Canada bond challenged important resistance levels but momentum stalled and its price tumbled four points from the highs.



This global bellwether bond is locked into a narrow trading range with low volatility.



The Canadian ten-year yields are well below their U.S. counterparts.



The yield spread between investment grade bonds and Treasury bonds has increased slightly, but is stable and well below earlier levels.

Outlook

Bond yields are at what we believe to be the lows for the foreseeable future. Economic conditions are constructive with no recession in sight. There is little upward pressure on yields now either. As such, we see 10 year U.S. Treasury yields settling into a range of 2.40 – 2.80%. It would take further proof that economies are still growing, along with modest upward pressure on inflation and wage growth for yields to break out from here. As well, a breakthrough in the important area of trade would add impetus to any upward yield movement.

Canadian bond yields are so low compared to the U.S. (our ten-year is 80 basis points lower) that we are not attracting much in the way of foreign investment flows. The sharp drop in 5-year yields, and thus mortgage rates, augurs well for the housing market.

The corporate bond market, both investment-grade and high-yield, remains solid; yield spreads narrowed in March.

Strategy

Given this outlook, we continue to stress investment in high-quality, short-duration corporate bonds. We favour the one-to-five year laddered approach. As for the high-yield market, conditions have improved and investors may consider investing 5% to 10% of their fixed income portfolios in this sector, preferably through ETFs. Also, investors may consider using one of our selected outside fixed income managers.

For further discussion, please speak to your investment advisor.