MONTHLY FIXED INCOME UPDATE

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April 14, 2020

Interest Rate Summary	Mar-31-20	Dec-31-19	Nov-29-19	Dec-31-18	29-Dec-17	30-Dec-16	31-Dec-15
U.S.							
3-Month T-Bill	0.09%	1.55%	1.58%	2.36%	1.38%	0.50%	0.16%
2-Year Treasury	0.25%	1.57%	1.53%	2.49%	1.89%	1.19%	1.31%
10-Year Treasury	0.67%	1.92%	1.78%	2.69%	2.41%	2.44%	2.27%
Canada							
3-Month T-Bill	0.20%	1.65%	1.65%	1.64%	1.05%	0.45%	0.51%
2-Year Canada	0.40%	1.69%	1.58%	1.86%	1.69%	0.74%	0.48%
10-Year Canada	0.70%	1.70%	1.46%	1.97%	2.04%	1.72%	1.39%

Performance

	YTD	2019	2018	2017	2016	2015	2014
DEX Universe Bond Index	1.56%	6.87%	1.41%	2.52%	3.52%	3.52%	8.79%
DEX Federal Bond Index	5.13%	3.73%	2.39%	0.13%	3.66%	3.66%	6.91%
DEX Provincial Bond Index	1.28%	9.07%	0.66%	4.33%	4.14%	4.14%	12.18%
DEX All Corporate Index	-2.48%	8.05%	1.10%	3.38%	2.71%	2.71%	7.58%
DEX "A" Corporate Index	-2.15%	9.65%	0.51%	4.42%	2.62%	2.62%	9.10%
DEX Real Return Bonds	0.04%	8.02%	-0.05%	0.72%	2.79%	2.79%	13.18%
DEX High Yield Bonds	-9.02%	8.48%	2.15%	5.20%	13.79%	-5.58%	2.64%

Government bonds showed positive performance in March, while corporate bonds were extremely weak. The high yield market fell sharply.

Comments:

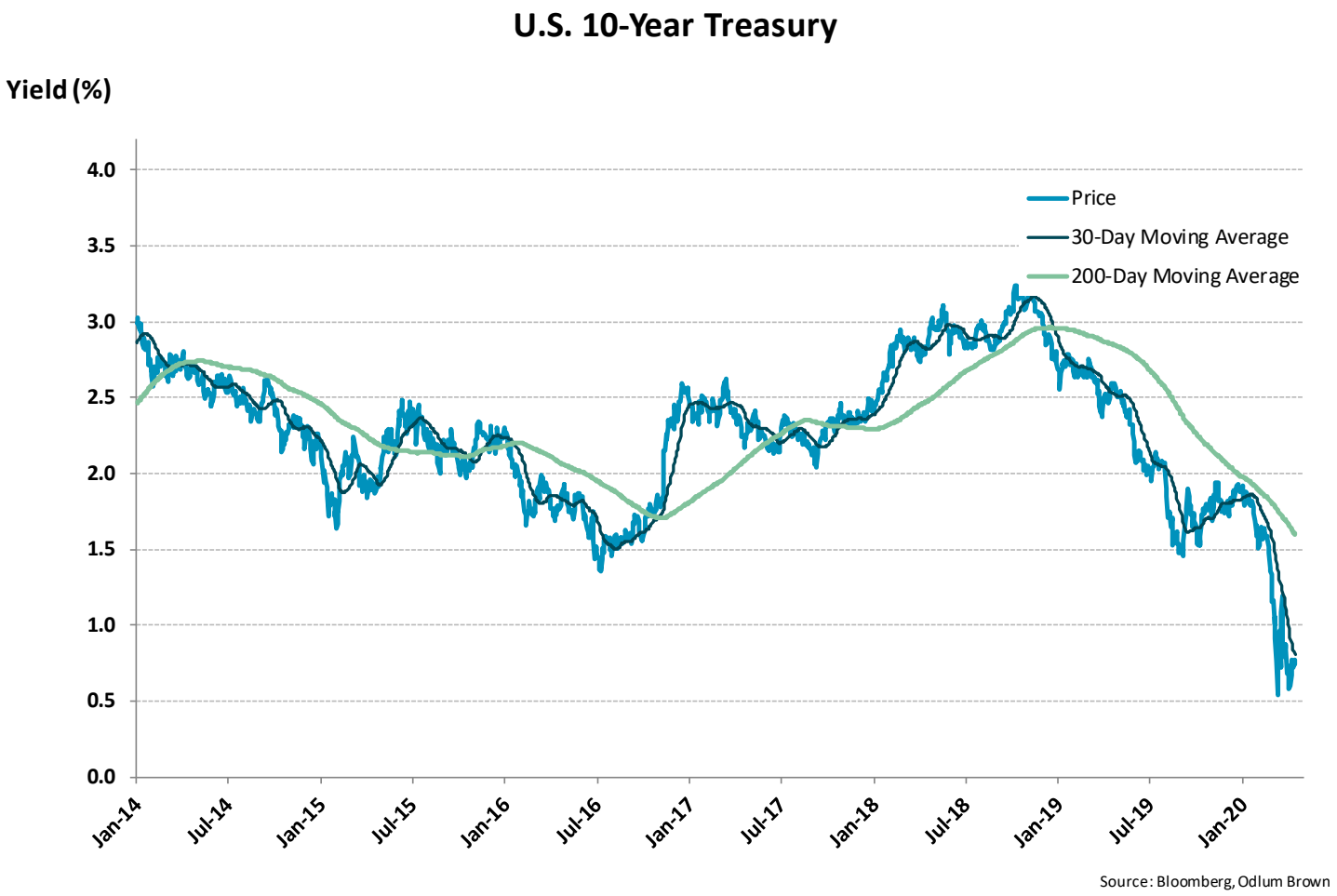
	Dec.31/19	Jan. 31/20	Feb. 28/20	Mar.31/20	Current
U.S. 3-month Treasury Bills	1.55%	1.55%	1.28%	0.09%	0.23%
U.S. 2-year bonds	1.57%	1.32%	0.92%	0.25%	0.23%
U.S. 10-year bonds	1.92%	1.51%	1.15%	0.67%	0.73%

We have just witnessed an extraordinary time in the history of credit markets. They froze in early March and yield spreads on both investment-grade and high-yield corporate bonds soared. New issuance dried up and fixed income ETFs and Bond Mutual Funds dealt with massive redemptions. Liquidity disappeared and even the vaunted U.S. Treasury market experienced dislocations.

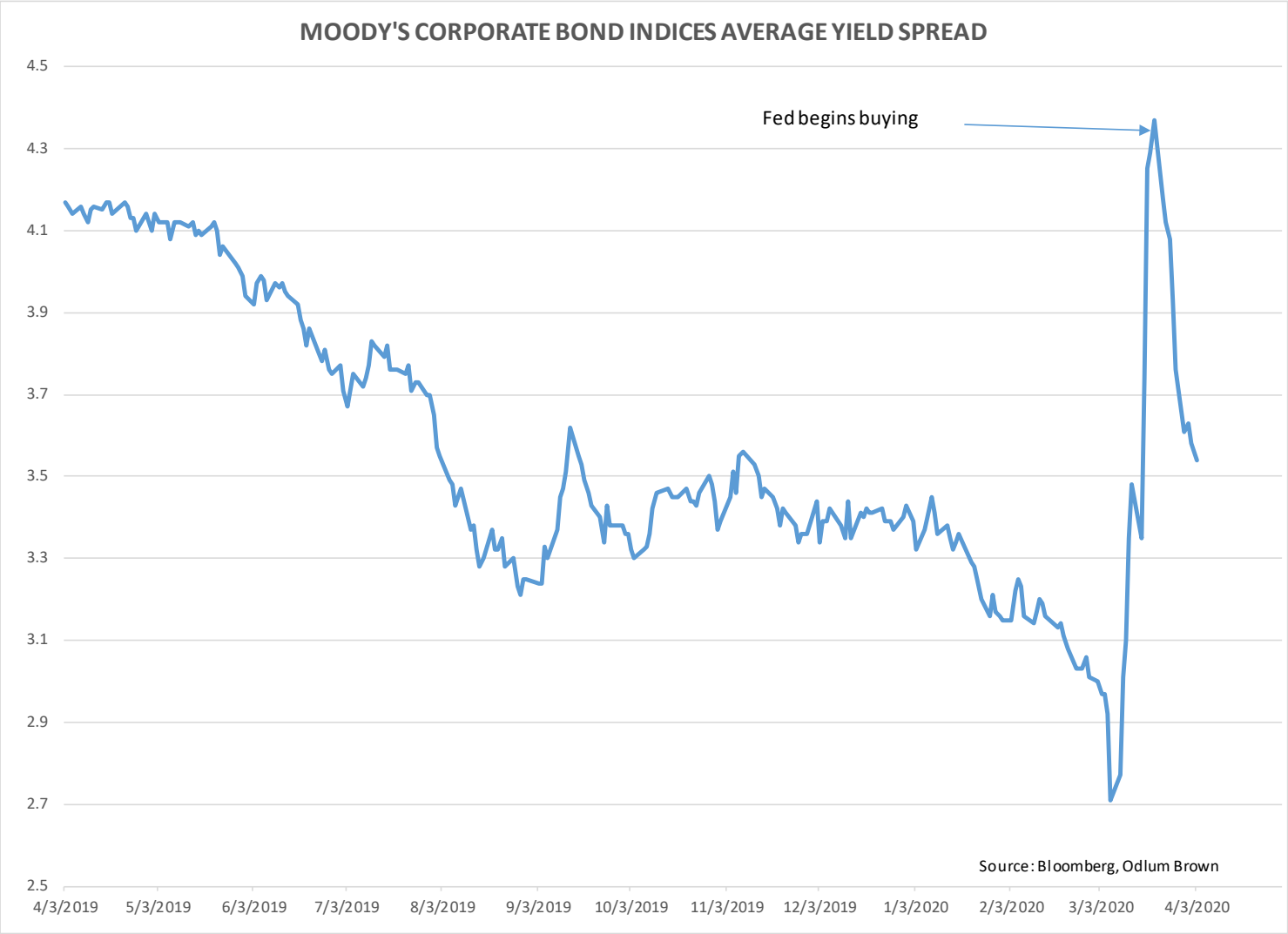
Into the breach came the Federal Reserve Board. For the first time ever, it declared, among other moves, that it would buy corporate bonds. This proved to be the inflection point for the credit markets; liquidity returned and primary issuance resumed. By the end of the month, some $200 billion of new investment-grade issues came to market. The high yield market remained mostly frozen with only one new issue for the entire month. Then, on April 9, the Fed launched another bazooka, a $2.3 trillion bond purchase program, which also included high yield bonds. This has restored further stability in credit markets and has facilitated greater issuance of primary issues.

During the month, the Fed dropped its Fed Funds Rate twice, for an aggregate of 150 basis points to 0.25%, while announcing an initial $700 billion asset purchase program. The Bank of Canada, lowered its overnight rate three times, to 0.25% and also announced its own quantitative easing program. Most major central banks followed suit.

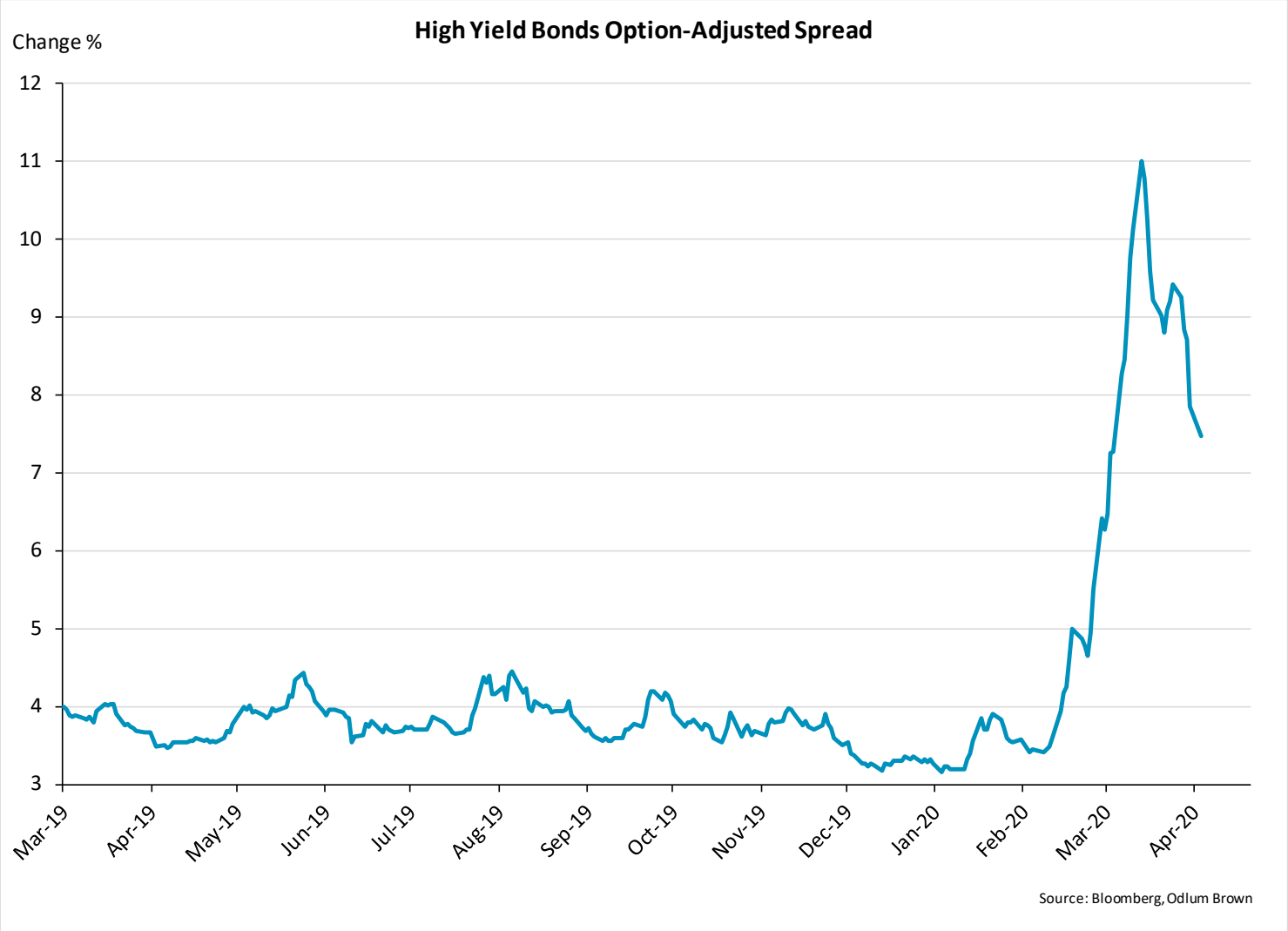
Accompanying all this monetary stimulus were dramatic fiscal rescue programs, designed to hopefully stave off recession.



This global bellwether issue has bounced up from record low yields.



This chart displays the dramatic widening in investment-grade corporate bonds and the subsequent improvement once the Fed kicked in.



High yield bonds have also benefitted from the Federal Reserve's massive buying program.

Outlook

The global economy has entered a recession and the primary questions are: how deep will it be and how long will it last?

There are no answers to these questions and there won't be until we see the end of this pandemic. Concerted massive monetary and fiscal stimulus has been introduced throughout the developed world. With monetary stimulus at its maximum, the onus has fallen on the various fiscal stimulus measures. The massive programs announced thus far should help to bridge this period when revenues and incomes have mostly ground to a halt.

Interest rates and bond yields are low and will remain so. The Fed has breathed life into the corporate credit market but there will likely be widespread downgrades as well as a pickup in corporate defaults. There will also be a tsunami of new government

bond issues to fund the various stimulus packages. Since we are in a disinflationary world, such issuance will not push bond yields higher in the near future. Ultimately, there will be inflationary consequences but that is a long way off.

Strategy

As we have stressed repeatedly, quality is the keyword for fixed income investors. In this environment, we favour non-cyclical corporate bonds, such as those issued by utilities, banks, telecoms and recurring-revenue businesses. It became difficult to obtain bids and offerings on individual bonds when conditions were at their worst. Conditions have improved somewhat and there has been some retracement of the widening in corporate bond yield spreads, both investment grade and high yield. Primary issuance of investment-grade corporate bonds has resumed with March being one of the largest months on record. By contrast, there was only one high yield new issue for the entire month.

This environment has not been particularly amenable to our favoured approach of purchasing individual bonds but conditions are improving to the point where a semblance of normalcy has returned, allowing us to once again carry out individual transactions efficiently.

We have long recommended the laddered approach to fixed income investing and we continue to do so. Investors may wish to consider short-term provincial bonds and senior deposit notes of the chartered banks as well as utilities, pipelines and telecoms.

For several years, we have had an approved list of outside fund managers. At present, in order for you to augment returns and benefit from their expertise in credit markets, we recommend two of these managers in particular, who are well positioned for this market environment.

For further discussion, please speak to your Portfolio Manager or Investment Advisor.