MONTHLY FIXED INCOME UPDATE

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Interest Rate Summary	Jul-31-20	Dec-31-19	Dec-31-18	29-Dec-17	30-Dec-16	31-Dec-15
U.S.						
3-Month T-Bill	0.09%	1.55%	2.36%	1.38%	0.50%	0.16%
2-Year Treasury	0.11%	1.57%	2.49%	1.89%	1.19%	1.31%
10-Year Treasury	0.53%	1.92%	2.69%	2.41%	2.44%	2.27%
Canada						
3-Month T-Bill	0.16%	1.65%	1.64%	1.05%	0.45%	0.51%
2-Year Canada	0.26%	1.69%	1.86%	1.69%	0.74%	0.48%
10-Year Canada	0.45%	1.70%	1.97%	2.04%	1.72%	1.39%

Performance

	YTD	2019	2018	2017	2016	2015	2014
DEX Universe Bond Index	8.89%	6.87%	1.41%	2.52%	3.52%	3.52%	8.79%
DEX Federal Bond Index	8.08%	3.73%	2.39%	0.13%	3.66%	3.66%	6.91%
DEX Provincial Bond Index	10.67%	9.07%	0.66%	4.33%	4.14%	4.14%	12.18%
DEX All Corporate Index	7.36%	8.05%	1.10%	3.38%	2.71%	2.71%	7.58%
DEX "A" Corporate Index	8.15%	9.65%	0.51%	4.42%	2.62%	2.62%	9.10%
DEX Real Return Bonds	9.95%	8.02%	-0.05%	0.72%	2.79%	2.79%	13.18%
DEX High Yield Bonds	-0.35%	8.48%	2.15%	5.20%	13.79%	-5.58%	2.64%

All sectors produced positive performance in June. Corporate bonds, both investment grade and high yield, outperformed governments for the fourth consecutive month. Real return bonds outperformed all other sectors in July.

Comments

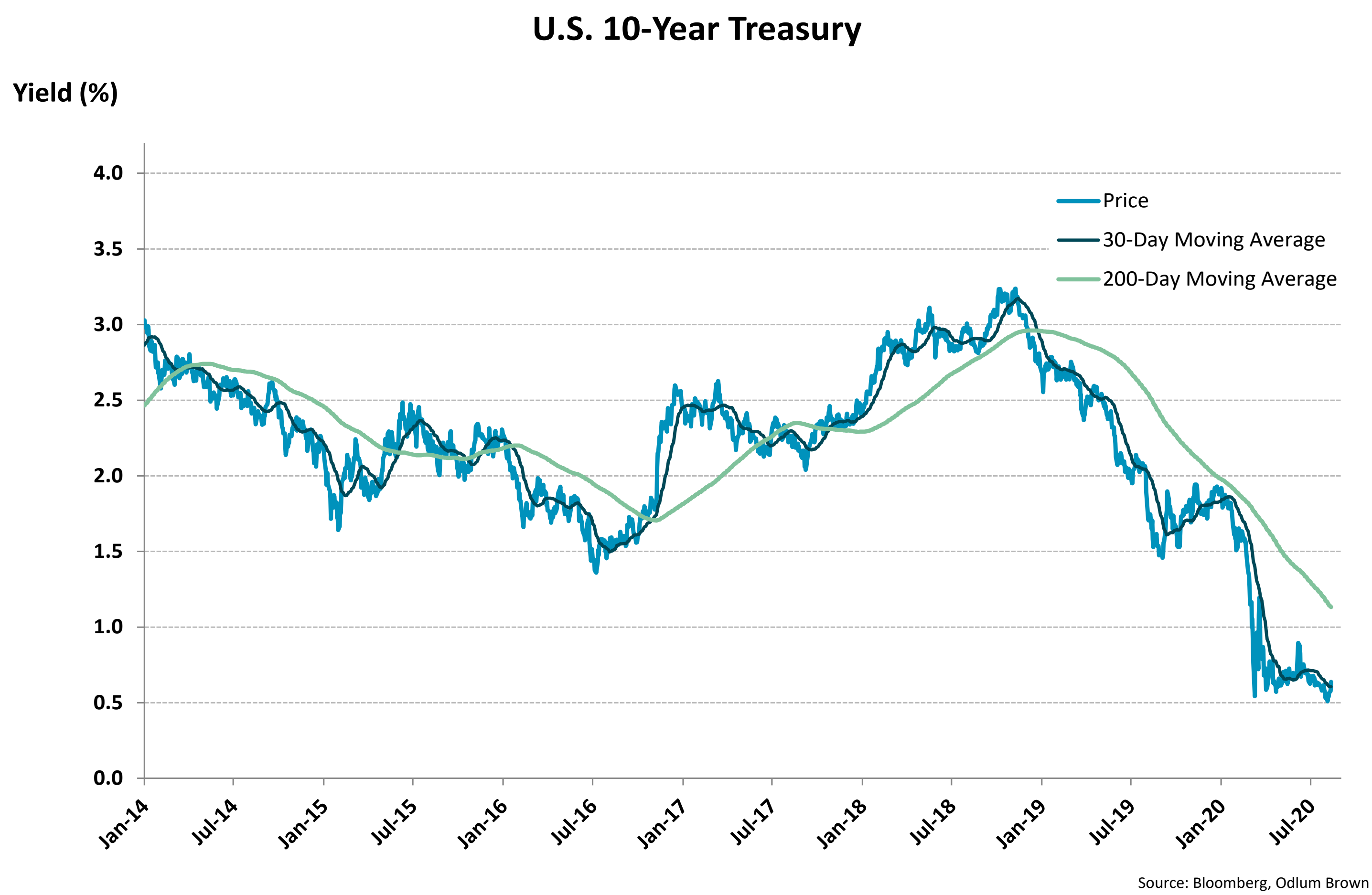
	Jul-31-20	Jun-30-20	May-29-20	Apr-30-20	Mar-31-20	Feb-28-20
U.S. 3-Month T Bills	0.09%	0.14%	0.14%	0.10%	0.09%	1.28%
U.S. 2-Year bonds	0.11%	0.15%	0.16%	0.20%	0.25%	0.92%
U.S. 10-Year bonds	0.53%	0.66%	0.65%	0.61%	0.67%	1.15%

For the fourth consecutive month, there was little net change in government bond yields. With the Fed buying $80 billion of treasury securities per month, yields are being suppressed. However, credit markets continued to revive, with investment grade and high yield corporate bond spreads narrowing steadily on strong demand for yield. Bond issuance has come off peak levels in May and June, but lower yields continue to attract borrowers. The improvement in high yield bonds has levelled off, but they have produced solid returns.

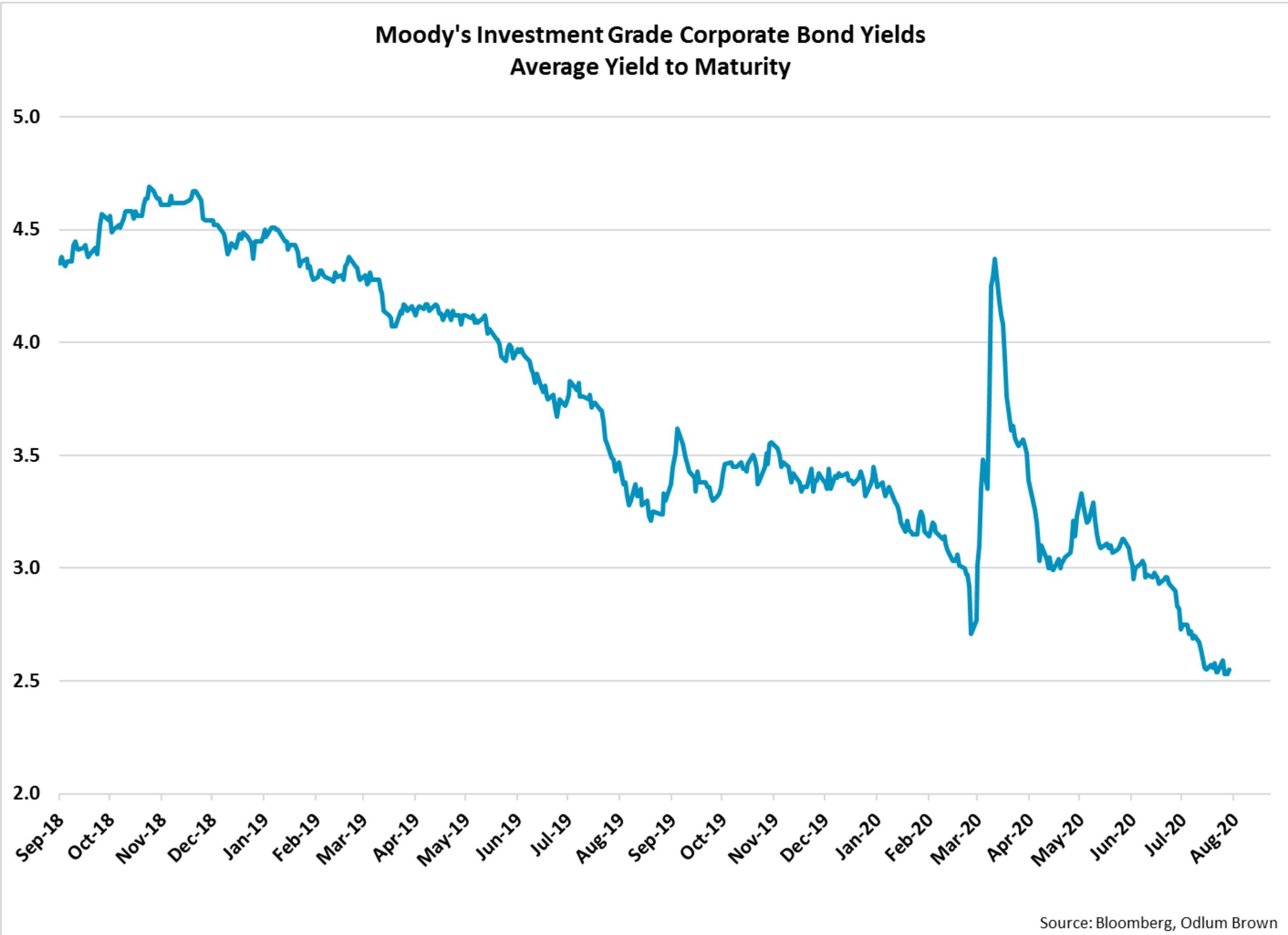
Meanwhile, the global economic recovery continues to unfold, at various paces. China's growth is accelerating and Europe's economies are perking up as witness their latest PMIs. The U.S. and Canada are reporting healthy improvement in key sectors such as housing, retail sales, employment and consumer confidence. In July, the U.S. added 1.7 million jobs accompanied by a plunge in the unemployment rate to 10.2%, while Canada added 479,000 jobs with an unemployment rate of 10.9%.

The Federal Reserve has signaled no change in policy. While not adopting formal yield curve control, the Fed is buying $80 billion of securities per month, which is anchoring bond yields close to all-time lows. The Bank of Canada has indicated that its policy will likely remain unchanged for up to two years.

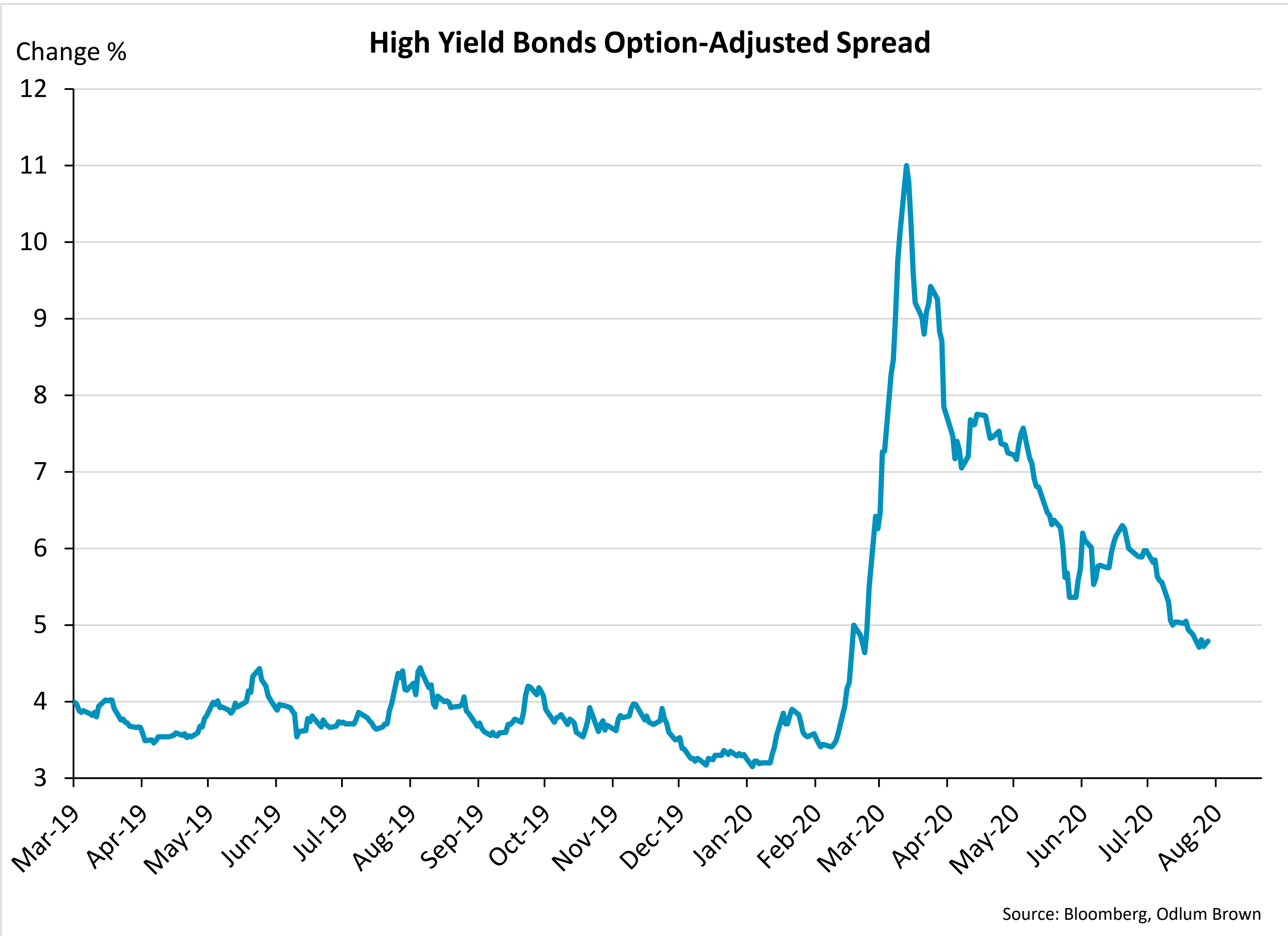
There is common consensus that inflation will remain weak indefinitely. However, reported wholesale and retail inflation numbers have increased well above consensus forecasts. There have also been steady upswings in the prices of commodities such as gold, silver and copper. The housing market is vibrant and real-return bonds have tacked on strong gains too.



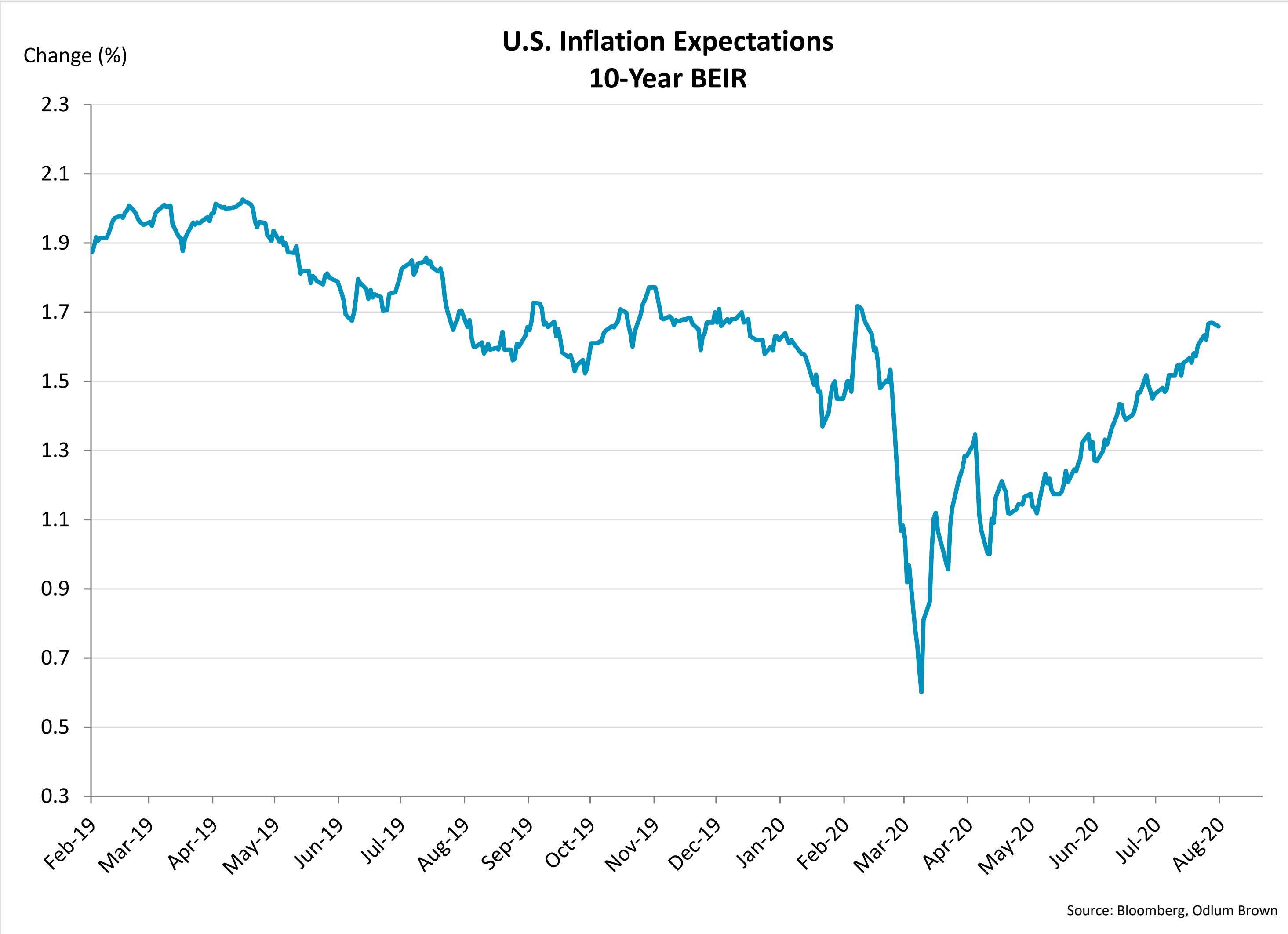
This global bellwether issue continues to trade near historic low yields.



Investment grade corporate bonds moved ever closer to U.S. Treasury yields.



The high yield market also improved steadily.



Inflation expectations moved up steadily but are well below 2%.

Outlook

The rebound in economic activity continues, underwritten by massive monetary and fiscal stimulus. There is a possibility of even more fiscal stimulus. While recent gains in employment are impressive, it is likely that there will be a tapering off of job gains. However, approximately 50% of lost jobs have come back and consumer confidence is high. This argues for further steady improvement in economic performance.

The Fed's quantitative easing and easy monetary stance have anchored Government bond yields close to all-time lows. Recently, however, there are signs that the tsunami of Government bond issuance to fund the giant fiscal shortfall is nudging these yields higher.

To this date, demand for investment grade corporates has proven to be insatiable, driving yields down to 2.55% while high yield issuance has brought yields to the 4.5-5% range.

The dramatic decline in corporate yields may pause here while the market eyes the forthcoming avalanche of Government bond supply. In addition, traders will cast a wary eye on inflation. The likely outcome will be little change in yields in the coming months.

GDP forecasts point to global growth of -4% in 2020, with the U.S. and Canada forecast to grow at -6% and -6.8% respectively, rebounding in 2021 by plus 4.7% and 5.5% respectively.

Strategy

We continue to stress the importance of including high-quality fixed income securities in client portfolios. In this environment, we favour non-cyclical corporate bonds, such as those issued by utilities, banks, telecommunications and recurring-revenue businesses.

Conditions have improved in the secondary bond market and there has been significant retracement of the widening in corporate bond yield spreads, both investment grade and high yield. Primary issuance of investment grade corporate bonds and high yield bonds reached record levels in May. While issuance has eased from those levels, corporate CFOs continue to take advantage of relatively low funding costs.

We have long recommended the laddered approach to fixed income investing. We continue to do so and, in addition to high-quality corporate credits, investors may wish to consider short-term provincial bonds. Eventually, we will turn our attention to inflation-protected bonds. It is premature to do so given the likelihood of benign inflation for the next couple of years.

For several years, we have had an approved list of outside fund managers. At present, in order 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.