Monthly Fixed Income Update

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Interest Rate Summary	Nov-30-20	Dec-31-19	Dec-31-18	29-Dec-17	30-Dec-16	31-Dec-15
U.S.						
3-Month T-Bill	0.08%	1.55%	2.36%	1.38%	0.50%	0.16%
2-Year Treasury	0.15%	1.57%	2.49%	1.89%	1.19%	1.31%
10-Year Treasury	0.84%	1.92%	2.69%	2.41%	2.44%	2.27%
Canada						
3-Month T-Bill	0.11%	1.65%	1.64%	1.05%	0.45%	0.51%
2-Year Canada	0.25%	1.69%	1.86%	1.69%	0.74%	0.48%
10-Year Canada	0.67%	1.70%	1.97%	2.04%	1.72%	1.39%

Performance

	YTD	2019	2018	2017	2016	2015	2014
DEX Universe Bond Index	8.29%	6.87%	1.41%	2.52%	3.52%	3.52%	8.79%
DEX Federal Bond Index	7.24%	3.73%	2.39%	0.13%	3.66%	3.66%	6.91%
DEX Provincial Bond Index	9.42%	9.07%	0.66%	4.33%	4.14%	4.14%	12.18%
DEX All Corporate Index	7.95%	8.05%	1.10%	3.38%	2.71%	2.71%	7.58%
DEX “A” Corporate Index	8.30%	9.65%	0.51%	4.42%	2.62%	2.62%	9.10%
DEX Real Return Bonds	12.64%	8.02%	-0.05%	0.72%	2.79%	2.79%	13.18%
DEX High Yield Bonds	5.32%	8.48%	2.15%	5.20%	13.79%	-5.58%	2.64%

All sectors produced positive performance in November and have recorded impressive year-to-date gains. Real Return bonds continue to lead the way. High-yield bonds are lagging investment-grade bonds.

	Nov-30-20	Oct-30-20	Sep-30-20	Aug-31-20	Jul-31-20	Jun-30-20	May-29-20	Apr-30-20
U.S. 3-month T Bills	0.08%	0.09%	0.10%	0.10%	0.09%	0.14%	0.14%	0.10%
U.S. 2-year bonds	0.15%	0.16%	0.13%	0.13%	0.11%	0.15%	0.16%	0.20%
U.S. 10-year bonds	0.84%	0.88%	0.69%	0.71%	0.53%	0.66%	0.65%	0.61%

Bond yields were essentially unchanged last month. The U.S. ten-year note approached 1% but fell back mostly on pandemic-related fears and a degree of uncertainty prior to the election. After positive vaccine news and the prospect of more fiscal stimulus, the ten-year shot up close to 1% again before subsiding at month-end. Since month-end, they have climbed back to 0.96%.The yield curve displayed no net change but remained at recent steep levels.

Short-term yields remain anchored by the Federal Reserve and the Bank of Canada and most other global central banks.

While the economic recovery continues in the U.S., there are signs that it may be slowing: employment gains, retail sales, initial jobless claims and ISM production have all displayed mild weakness. Of note is that U.S. M2 money supply has soared to a year-over-year percentage gain in excess of 22%. While this development might typically raise inflation alarm bells, it has not during this pandemic time, as this massive increase in money supply has ended up in savings without being spent and thus not contributing to inflationary pressures.

Canada reported better-then-expected job growth and a solid third quarter GDP growth. The loonie has benefitted from improving commodity prices.

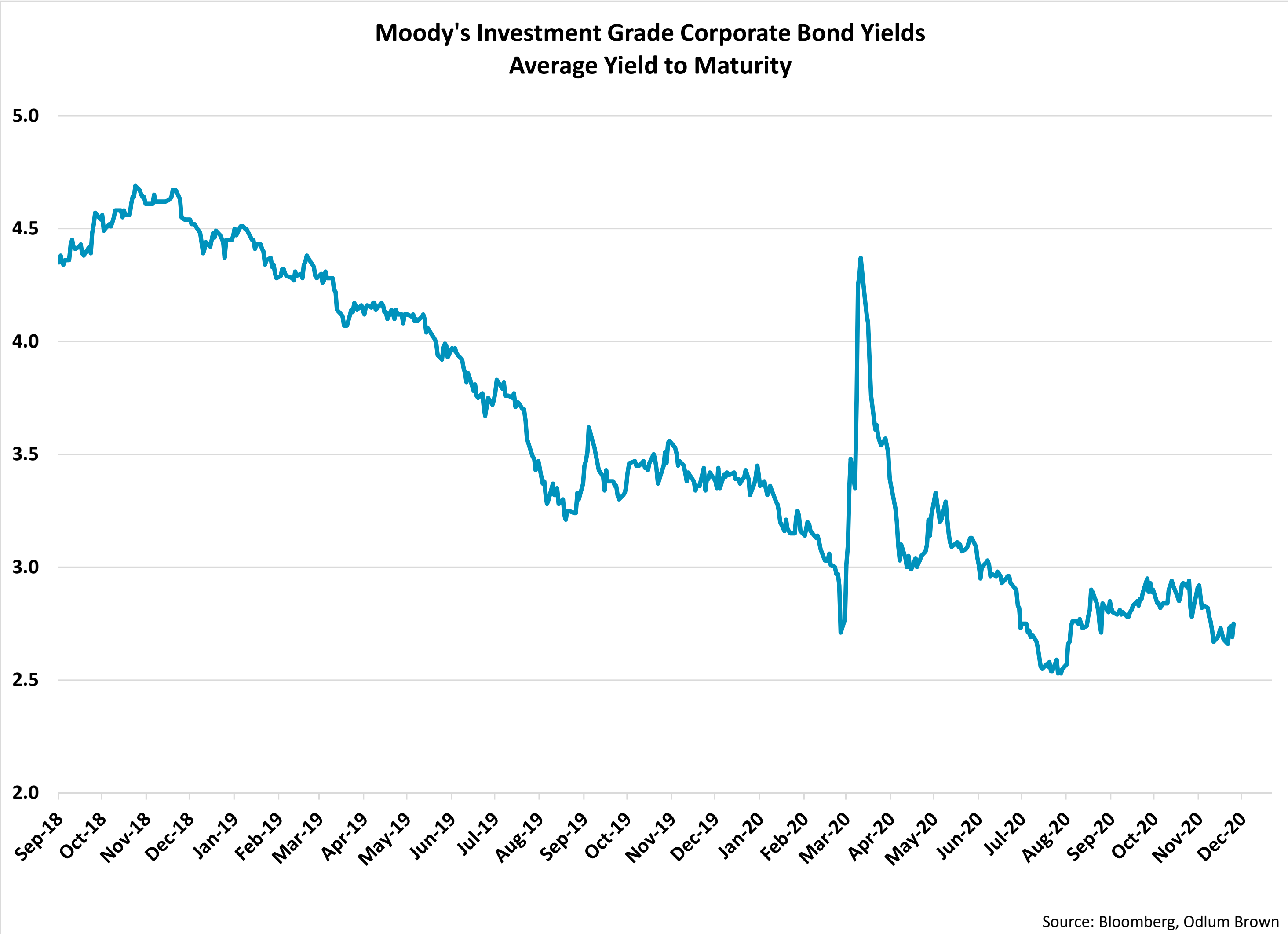
The rest of the world, notably China, continues to rebound. Even in Europe, pockets of strength have emerged.

Inflation has begun to rear its head, both reported and anticipated. Real return yields have risen faster than nominal yields, driving real yields further negative.

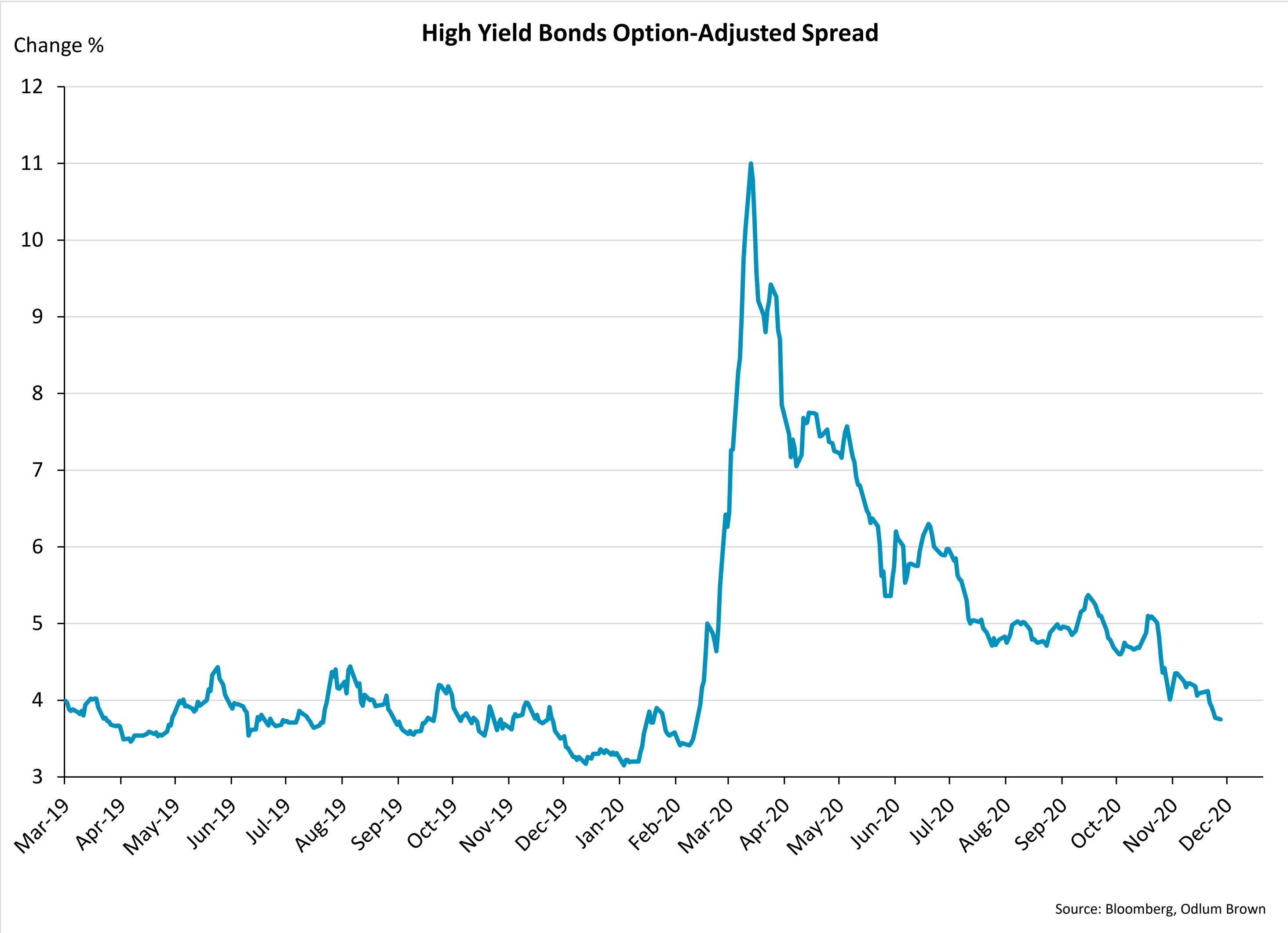
U.S. 10-Year Treasury

Source: Bloomberg, Odlum Brown

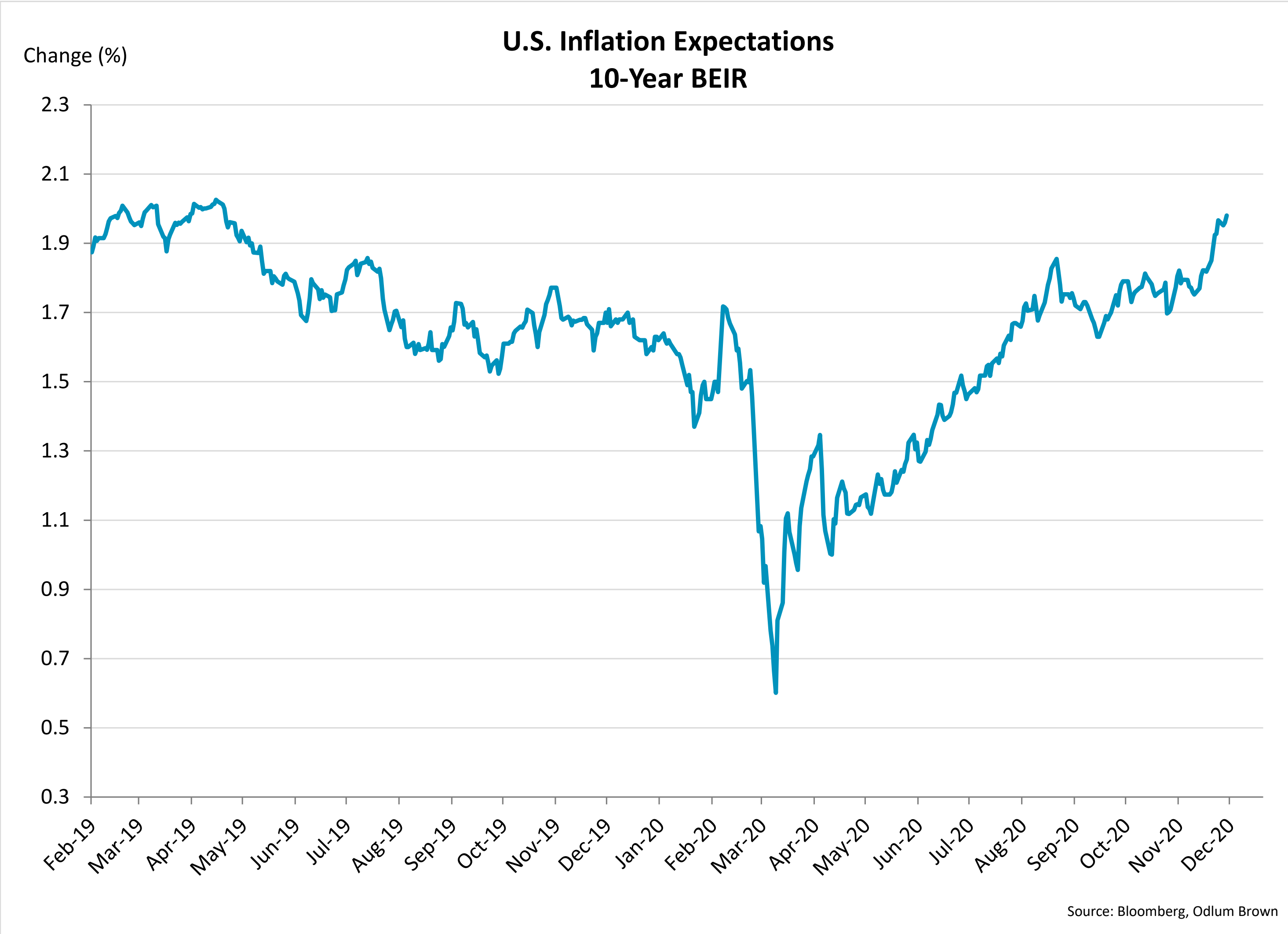
This global bellwether issue is displaying a mild upward pattern in yield and has approached 1% twice.



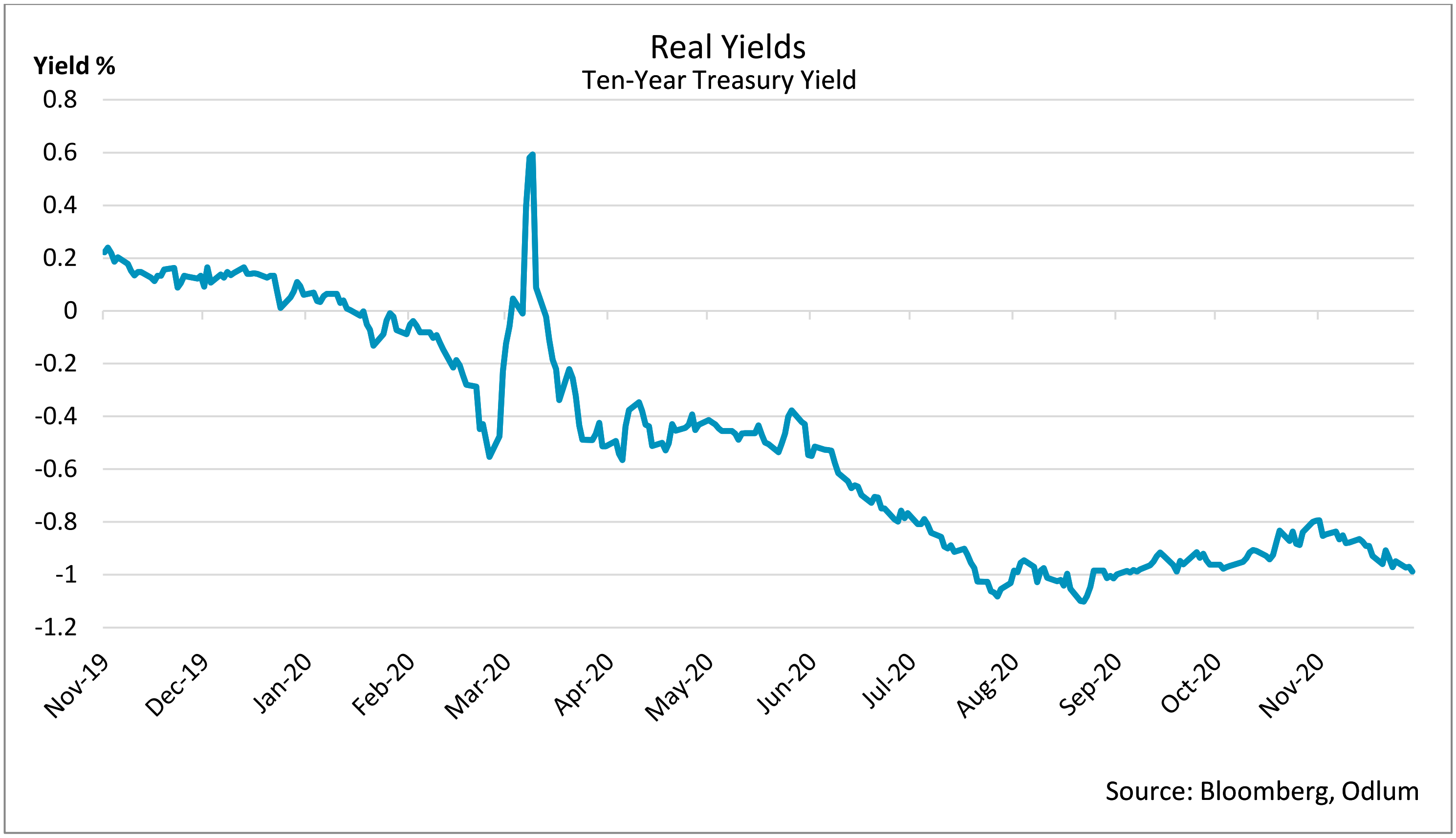
Investment-grade corporate bond yields have stabilized.



The high yield market resumed its rally after pausing for two months.



Inflation expectations have moved higher and are approaching 2%.



Real yields are moving further negative after months of improvement.

Outlook

Our view remains that nominal bond yields will trend higher. With Central Banks anchoring short-term yields indefinitely, this argues for a steeper yield curve. The question remains about how serious the Federal Reserve will become when the ten-year breaches 1%. Thus far, there has been no mention of yield curve control.

Inflation expectations resumed their climb and are approaching 2%. With upwards pressure on prices of all kinds growing in the pipeline, it seems likely that inflation will exceed 2% in 2021, putting further upward pressure on nominal bond yields. With vaccines about to roll out and with further fiscal stimulus likely to come from the new administration in Washington, the recovery should gather pace again.

Corporate bond yields have fallen to the point where they are close to offering zero yield after inflation and are unlikely to fall further, especially in light of rising treasury yields.

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 of maturities less than five years, such as those issued by utilities, banks, telecommunications and recurring-revenue businesses.

The rally in corporate bonds is close to an end but with investment-grade bonds still offering attractive yield premiums over government bonds, they will continue to attract strong investor demand.

We have long recommended the laddered approach to fixed income investing. We continue to do so.

Eventually, we will turn our attention to inflation-protected bonds, once it is clear that the recent acceleration in inflation is more than cyclical.

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.