Monthly Fixed Income Update

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Interest Rate Summary	Apr-30-19	Dec-31-18	29-Dec-17	30-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13
U.S.							
3-Month T-Bill	2.41%	2.36%	1.38%	0.50%	0.16%	0.04%	0.07%
2-Year Treasury	2.27%	2.49%	1.89%	1.19%	1.31%	0.47%	0.38%
10-Year Treasury	2.50%	2.69%	2.41%	2.44%	2.27%	2.17%	3.03%
Canada							
3-Month T-Bill	1.67%	1.64%	1.05%	0.45%	0.51%	0.90%	0.92%
2-Year Canada	1.56%	1.86%	1.69%	0.74%	0.48%	0.99%	1.14%
10-Year Canada	1.71%	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	3.80%	1.41%	2.52%	3.52%	3.52%	8.79%	-1.19%
DEX Federal Bond Index	2.30%	2.39%	0.13%	3.66%	3.66%	6.91%	-1.52%
DEX Provincial Bond Index	4.90%	0.66%	4.33%	4.14%	4.14%	12.18%	-2.70%
DEX All Corporate Index	4.33%	1.10%	3.38%	2.71%	2.71%	7.58%	0.84%
DEX "A" Corporate Index	4.75%	0.51%	4. 42%	2.62%	2.62%	9.10%	-0.16%
DEX Real Return Bonds	5.32%	-0.05%	0.72%	2.79%	2.79%	13.18%	-13.1%
DEX High Yield Bonds	4.67%	2.15%	5.20%	13.79%	-5.58%	2.64%	6.87%

Corporate bonds continued their positive performance in April, but government bonds posted negative returns. High yield and real return bonds also produced positive returns.

Comments

Long-term bond yields rose modestly in April in the U.S. and Canada, while short-term yields were unchanged. The resulting modest steepening of the yield curve put to rest the recession clamour, as did the improvement in economic data, some of which had been adversely affected by the severe winter. Employment, initial jobless claims and retail sales bounced back. Commodity prices continued to firm; oil prices increased 40% year to date, while copper, long a harbinger for growth, advanced approximately 10% from year-end.

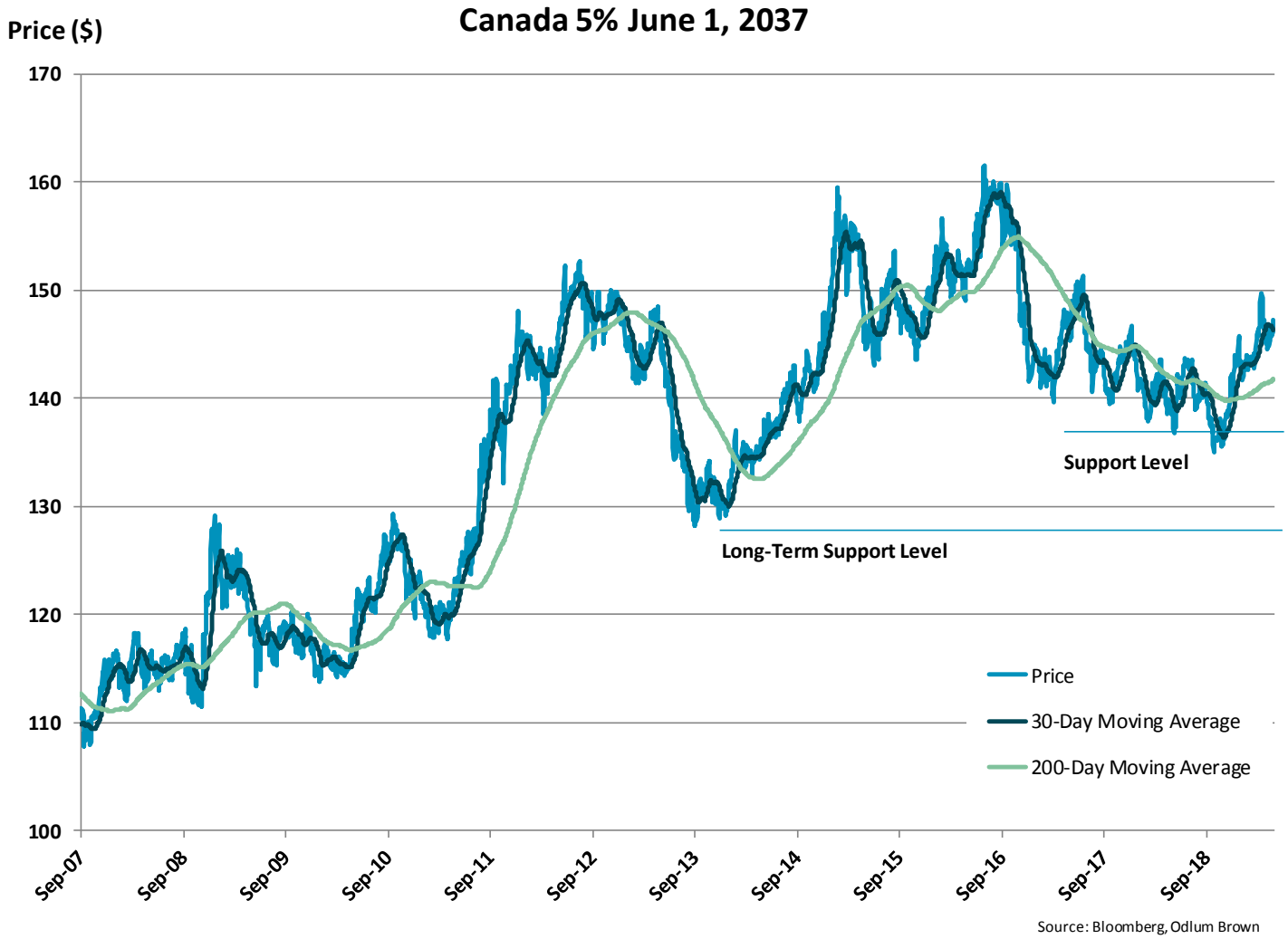
Global growth stabilized with positive signs from China. Forecasts call for a 3.2% increase in global growth with Europe being a notable laggard. The U.S. reported a 3.2% GDP expansion in Q1, far stronger than consensus.

The Bank of Canada, while remaining optimistic, nevertheless removed its tightening bias and is on the sidelines indefinitely. Reflecting the relative weakness of the Canadian economy vis-à-vis the U.S., our ten-year bond yields 80 basis points less than its U.S. counterpart, a 37-year record.

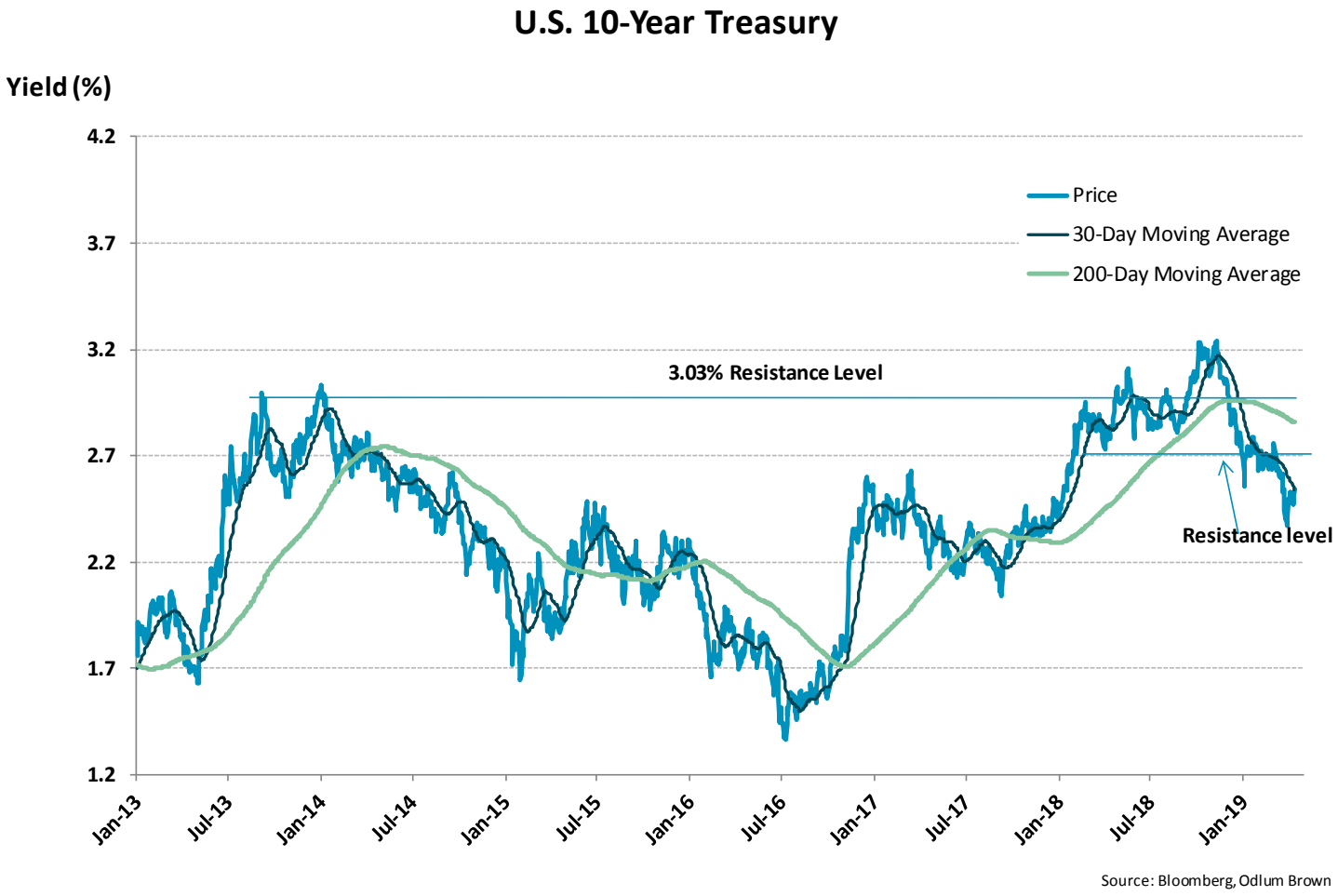
With tightening put aside for now, corporate yield spreads, both investment grade and high yield, narrowed meaningfully to government bonds.

Inflation remained cool, despite a 50-year low in unemployment. The core PCE (the Fed's favourite inflation indicator), slumped to 1.6 percent.

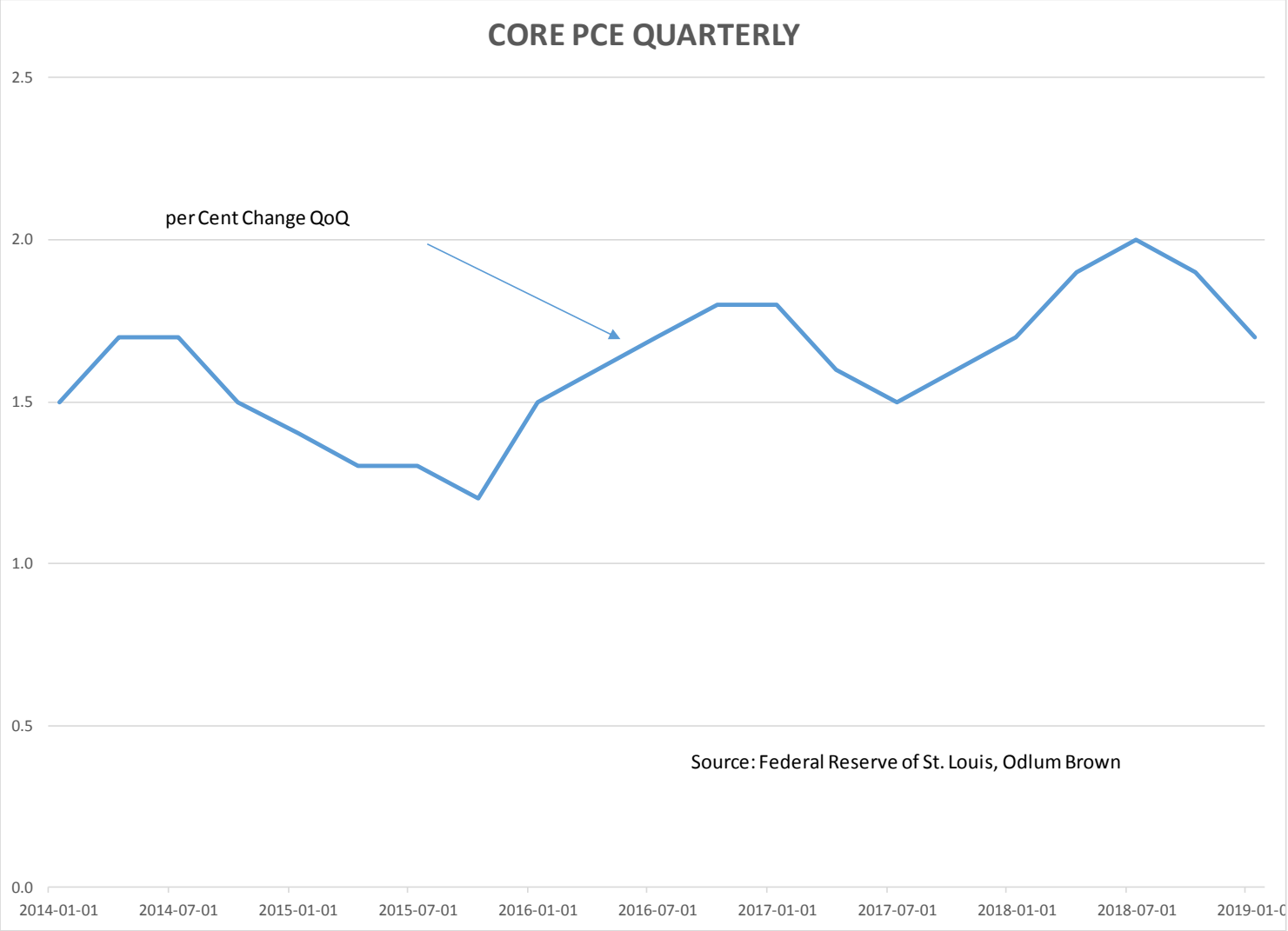
Ahead of last week's FOMC meeting, the market was building in a reasonable chance of a cut in the Fed Funds Rate. This did not happen as the Fed held the course and referred to the recent softness in inflation as "transitory".



The price of this long-term Canada bond remains close to important resistance levels and is well above the 200-day moving average.



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



This is the Federal Reserve's favoured inflation measure. It decelerated to 1.6% in the first quarter of 2019.

Outlook

Bond yields have reached the low end of what we perceive to be a 2.40-2.80% trading range. If Fed Chair Powell is correct in labelling the recent softness in inflation as “transitory”, then bond yields may tick higher. Some of the recent decline in yields may also have emanated from the safe-haven bid after the latest trade spat.

Global growth is positive but at a reduced pace from 2018; Europe is mired in a 1% growth phase with a majority of its bonds at negative yields.

With most central banks on the sidelines (i.e., no tightening), corporations have little to fear from rising rates. Corporate bond yields, both investment grade and high yield, have thus narrowed versus government yields. This has held true in Canada where the Bank of Canada finally abandoned its tightening bias.

Thus far, inflation has not shown any signs of accelerating and we expect no jarring moves in bond yields.

Strategy

Returns thus far this year have equalled what could have been expected from bonds for the entire year. For those returns to improve further would mean even lower bond yields from current levels. While that is not in our forecast, it remains a possibility.

Given this outlook, we continue to stress investment in high-quality, short-duration corporate bonds. We favour the one-to-five year laddered approach. Also, investors may consider using one of our selected outside fixed income managers.

For further discussion, please speak to your investment advisor.