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INVESTMENT RESEARCH

Monthly Fixed Income Update

Hank Cunningham

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Interest Rate Summary	Apr-30-20	Dec-31-19	Nov-29-19	Dec-31-18	29-Dec-17	30-Dec-16	31-Dec-15
U.S.							
3-Month T-Bill	0.10%	1.55%	1.58%	2.36%	1.38%	0.50%	0.16%
2-Year Treasury	0.20%	1.57%	1.53%	2.49%	1.89%	1.19%	1.31%
10-Year Treasury	0.61%	1.92%	1.78%	2.69%	2.41%	2.44%	2.27%
Canada							
3-Month T-Bill	0.25%	1.65%	1.65%	1.64%	1.05%	0.45%	0.51%
2-Year Canada	0.31%	1.69%	1.58%	1.86%	1.69%	0.74%	0.48%
10-Year Canada	0.54%	1.70%	1.46%	1.97%	2.04%	1.72%	1.39%

Performance

	YTD	2019	2018	2017	2016	2015	2014
DEX Universe Bond Index	5.41%	6.87%	1.41%	2.52%	3.52%	3.52%	8.79%
DEX Federal Bond Index	6.76%	3.73%	2.39%	0.13%	3.66%	3.66%	6.91%
DEX Provincial Bond Index	6.57%	9.07%	0.66%	4.33%	4.14%	4.14%	12.18%
DEX All Corporate Index	2.15%	8.05%	1.10%	3.38%	2.71%	2.71%	7.58%
DEX “A” Corporate Index	2.78%	9.65%	0.51%	4.42%	2.62%	2.62%	9.10%
DEX Real Return Bonds	3.62%	8.02%	-0.05%	0.72%	2.79%	2.79%	13.18%
DEX High Yield Bonds	-6.63%	8.48%	2.15%	5.20%	13.79%	-5.58%	2.64%

All sectors produced positive performance in April. Corporate bonds, in particular, rebounded smartly after the carnage in March with the Federal Reserve pledging support for both investment-grade and high yield issues.

The Bank of Canada also indicated it would backstop our corporate and provincial bond markets, resulting in both a pickup in issuance plus sharp increases in the price of secondary market issues.

Comments:

	Dec.31/19	Jan. 31/20	Feb. 28/20	Mar.31/20	Apr. 30/20
U.S. 3-month Treasury Bills	1.55%	1.55%	1.28%	0.09%	0.10%
U.S. 2-year bonds	1.57%	1.32%	0.92%	0.25%	0.20%
U.S. 10-year bonds	1.92%	1.51%	1.15%	0.67%	0.61%

On the surface, there was little change in the government bond market as yields fell modestly. The real action was in the corporate bond market. These markets roared back in response to the Federal Reserve's latest bazooka, which stated that the Fed would extend its bond purchases by a further $2.3 trillion, not only to investment-grade bonds, but also to high yield bonds as well as ETFs and Mutual Funds. This historic action by the Fed gave credit markets all they needed. The Fed did not have to buy a single bond as the backstop it was providing offered traders and portfolio managers alike the confidence to resume trading. Bid/ask spreads narrowed and the primary issuance market became busy again with an increase of 85% in new issues.

Canada experienced a similar result in our credit markets as the Bank of Canada unveiled its first ever Quantitative Easing program which encompassed provincial as well as corporate bonds.

With credit markets thawed, attention swung to fiscal stimulus. Every country in the developed world is injecting unheard of stimulus into their economies. Even that bastion of balanced budgets and fiscal rectitude, Germany, announced a stimulus package amounting to some 12% of its GDP.

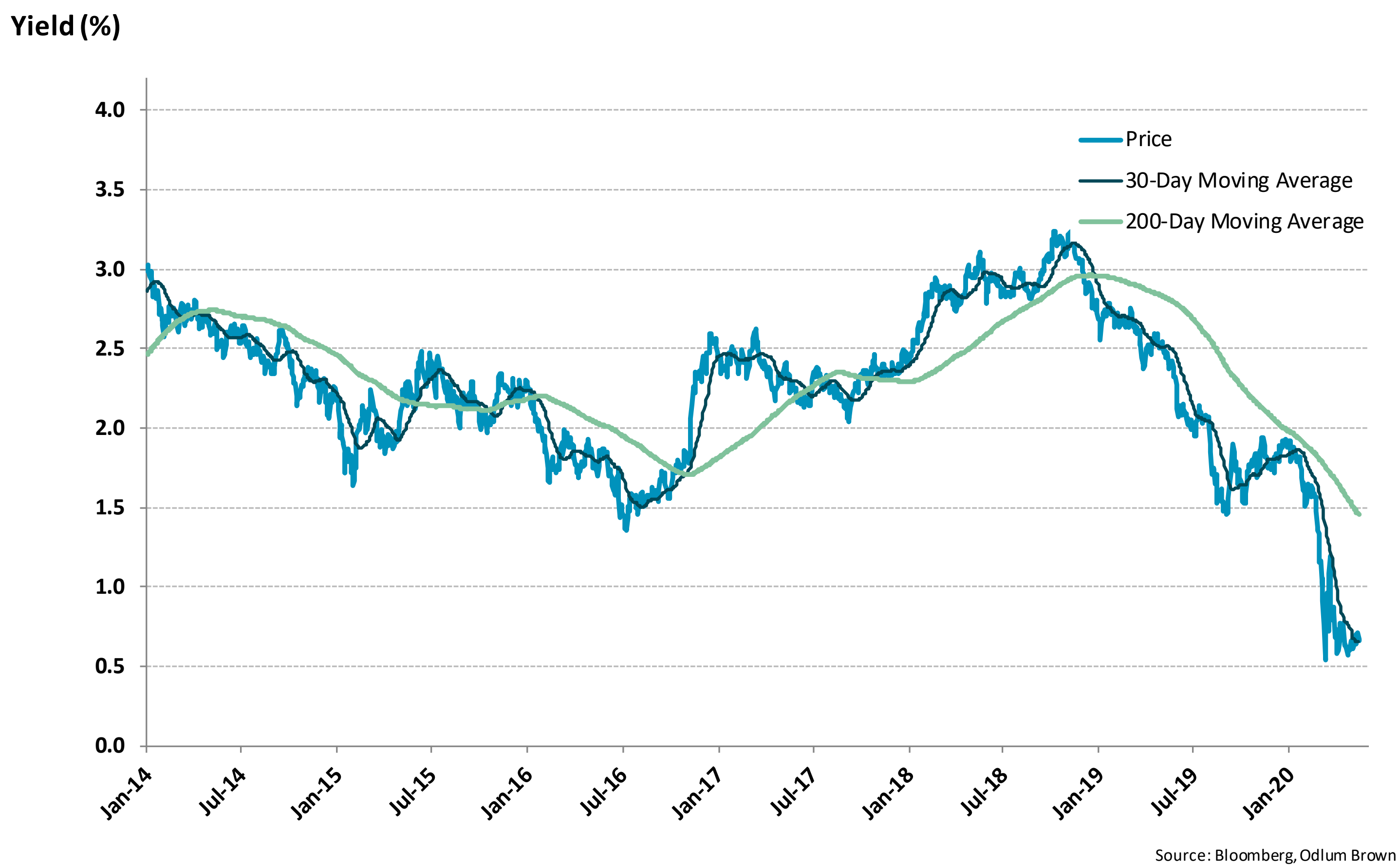
The economic data has been record breaking in the worst way. All of the job growth in the U.S. since 2011 has already been wiped out.

GDP forecasts, at this point are barely better than a guess, and suggest global GDP will contract by 4% this year, the U.S. by 6% and Canada by 7%.

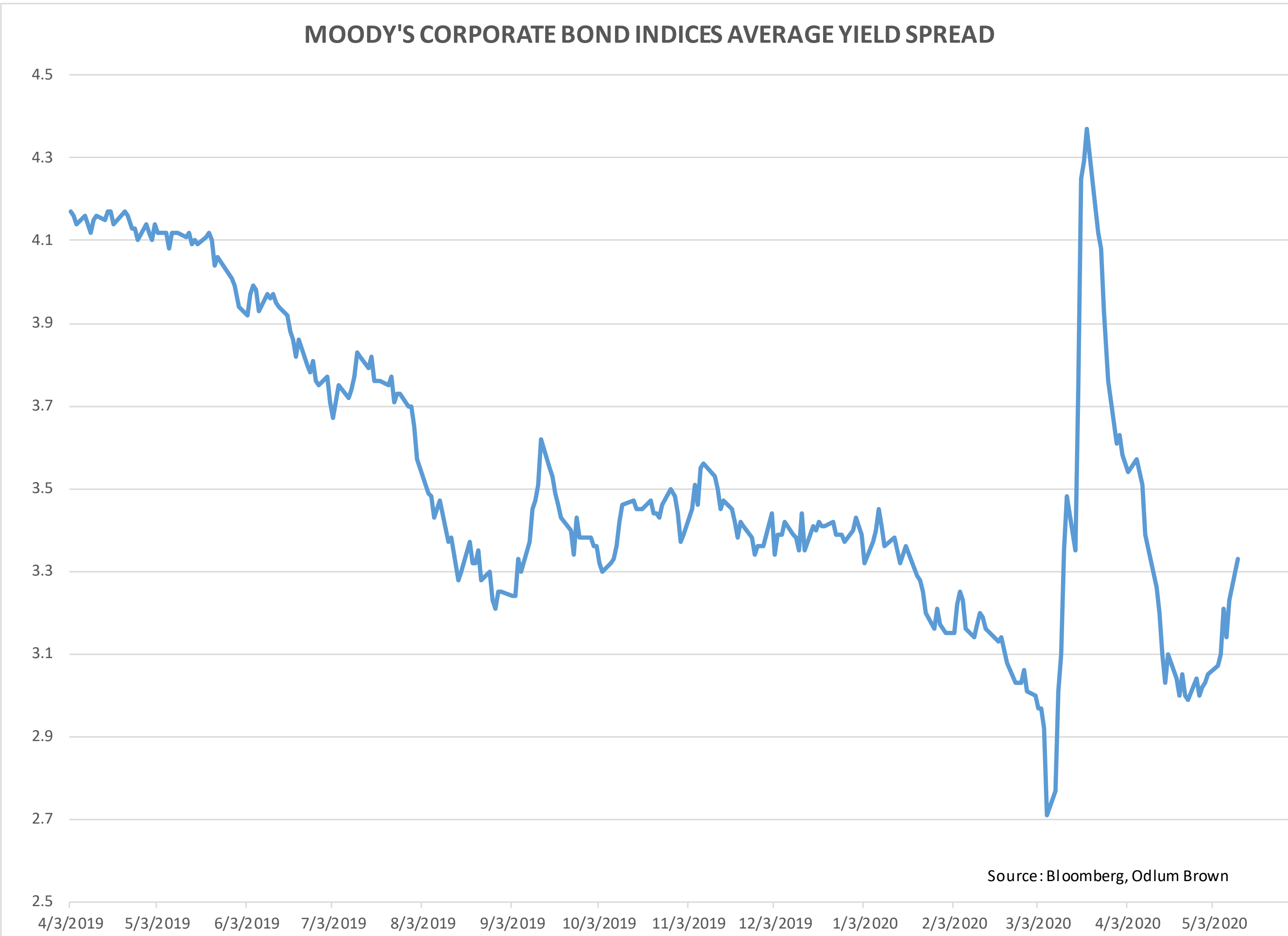
Inflation is in freefall.

The net result of all the government action is that credit markets have been resuscitated and are functioning well.

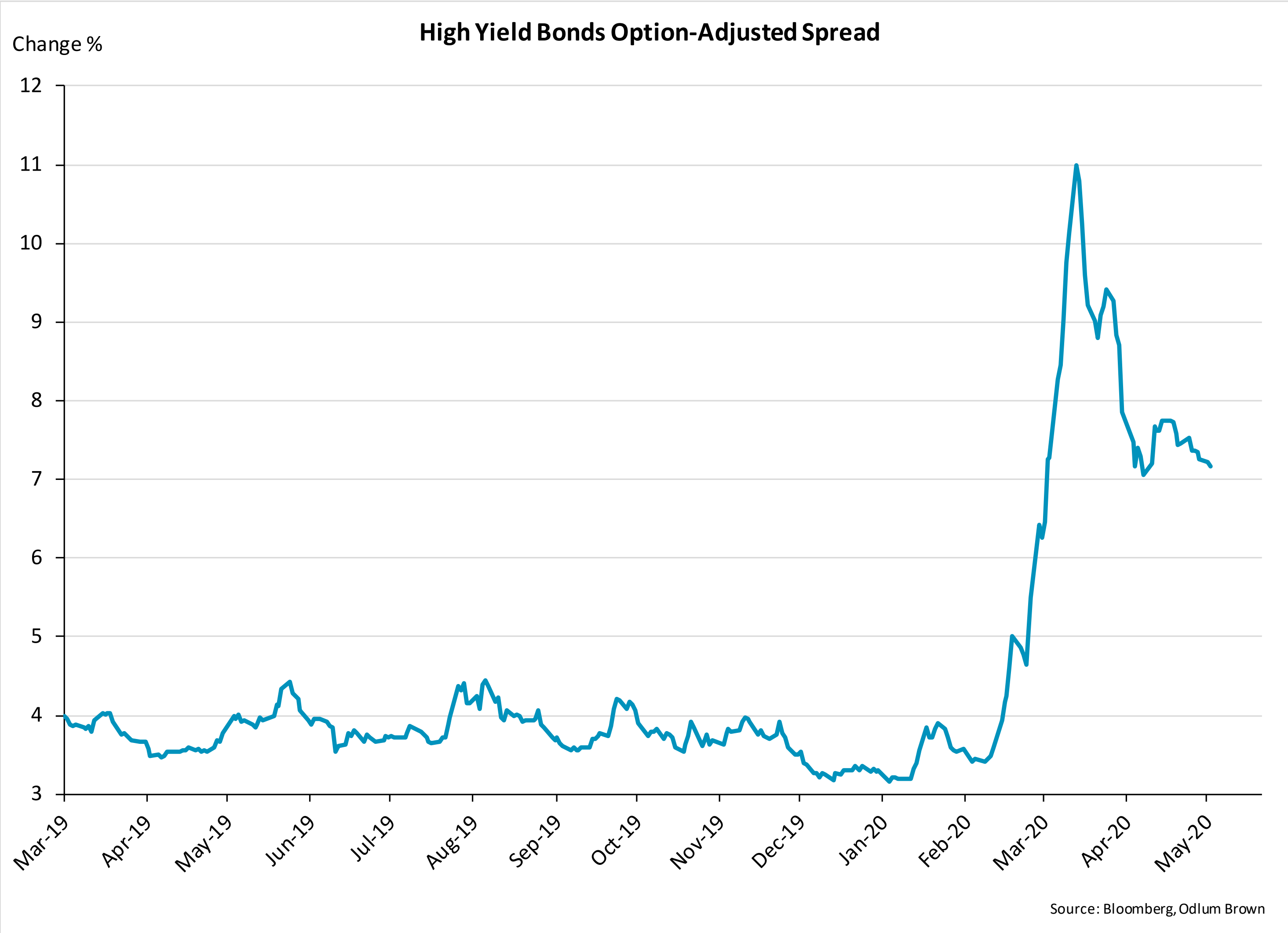
U.S. 10-Year Treasury



This global bellwether issue traded in a narrow range following its earlier steep plunge.



This chart shows the dramatic improvement in the investment-grade market.



The high yield market also continued to improve.

Outlook

The consensus view is that the massive, unprecedented monetary and fiscal stimulus unleashed to date is sufficient to contain the slump to a deep recession, avoiding the experience of the '30s. Already, there are pockets of recovery taking place globally, making it likely that we have passed the nadir of the recession. Of course, economists have, as in the past, resorted to labelling the likelihood of recovery as "V", "W" or "L" shaped. One school of thought forecasts it as a "swoosh" comeback.

In the short run, inflation measures are sliding, raising the specter of deflation. At the same time, the massive fiscal stimulus is producing never-before-seen budgetary deficits; in turn, this means record issuance of government bonds. The U.S., for example, will issue some $910 billion of notes and bonds in the third quarter. The net result is likely to be an ultimate return to an inflation cycle. At present though, actions by central banks everywhere are pinning short-term yields close to zero while longer-term bond yields are moving gently higher.

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, telecommunication firms and recurring-revenue businesses.

Conditions have improved in the secondary market for bonds 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 and high yield bonds has resumed in April, making it one of the largest months for new issues on record.

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. Specifically, we recommend the 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.