



## MONTHLY FIXED INCOME UPDATE

Hank Cunningham

May 12, 2021

Interest Rate Summary	Apr-30-21	Mar-31-21	Feb-27-21	Jan-29-21	Dec-31-20	Dec-31-19	Dec-31-18
<b>U.S.</b>							
3-Month T-Bill	0.01%	0.02%	0.04%	0.05%	0.08%	1.55%	2.36%
2-Year Treasury	0.16%	0.16%	0.13%	0.11%	0.12%	1.57%	2.49%
10-Year Treasury	1.63%	1.74%	1.41%	1.07%	0.92%	1.92%	2.69%
<b>Canada</b>							
3-Month T-Bill	0.10%	0.08%	0.06%	0.06%	0.06%	1.65%	1.64%
2-Year Canada	0.30%	0.22%	0.15%	0.15%	0.20%	1.69%	1.86%
10-Year Canada	1.54%	1.56%	1.35%	0.89%	0.68%	1.70%	1.97%

### Performance

	YTD	2020	2019	2018	2017	2016	2015
DEX Universe Bond Index	-4.98%	8.68%	6.87%	1.41%	2.52%	3.52%	3.52%
DEX Federal Bond Index	-3.73%	7.28%	3.73%	2.39%	0.13%	3.66%	3.66%
DEX Provincial Bond Index	-7.09%	9.86%	9.07%	0.66%	4.33%	4.14%	4.14%
DEX All Corporate Index	-3.48%	8.74%	8.05%	1.10%	3.38%	2.71%	2.71%
DEX "A" Corporate Index	-4.78%	8.98%	9.65%	0.51%	4.42%	2.62%	2.62%
DEX Real Return Bonds	-8.96%	13.02%	8.02%	-0.05%	0.72%	2.79%	2.79%
DEX High Yield Bonds	3.22%	6.69%	8.48%	2.15%	5.20%	13.79%	-5.58%

After rising yields in the first three months of the year and accompanying negative performance, the bond market turned in mixed performance in April; government bonds showed mildly positive results while most corporate bond sectors were negative.

The bond market consolidated in April as the U.S. ten-year yield fell by 11 basis points. Year-to-date, this bond has added 71 basis points to yield 1.63%. With the two-year yield anchored at 16 basis points, the yield curve has steepened sharply to 147 basis points.

Fed Chair Powell remained steadfast in his loose monetary accommodation, buying \$120 billion of bonds and mortgages per month, and stating repeatedly that he expects any run-up in inflation to be transitory. His views and stance have helped to calm the bond market.

Meanwhile, the economic recovery continued to accelerate with key indicators such as PMIs, ISM manufacturing, retail sales, GDP growth and personal income showing solid growth. This latter number was a blockbuster.

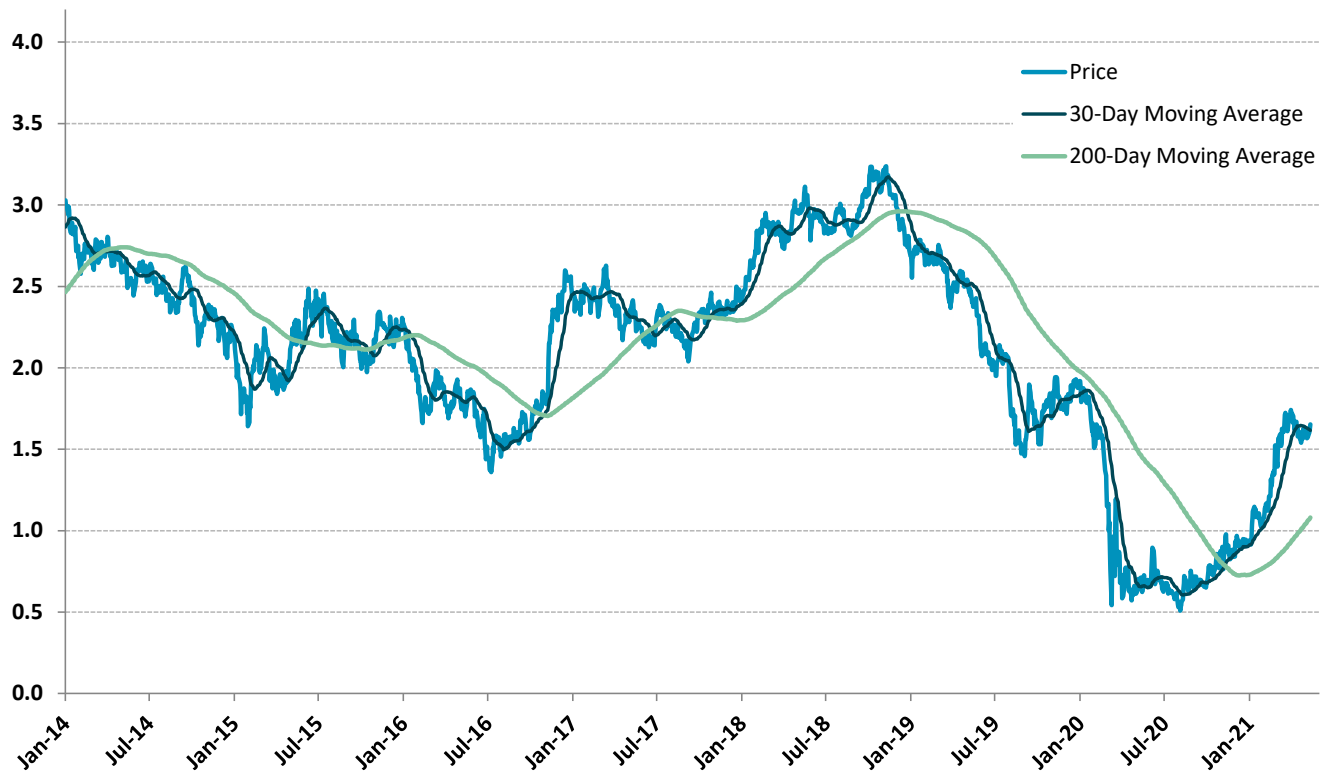
The employment market gave mixed signals. In March, the U.S. economy added almost one million jobs, however the market was shocked when, with similar forecasts for April, the economy added just 200,000 jobs. This has helped to suppress bond yields and pushed back forecasts of Fed tapering.

Canada reported a string of positive data, including the 11<sup>th</sup> consecutive monthly gain in GDP. Our employment market, however, experienced the same disappointing results as in the U.S. The Bank of Canada, noting the solid ongoing growth, became the first central bank in the developed world to reduce monetary accommodation by tapering its bond purchases.

The recent Consumer Price Inflation news surprised pundits on the upside, reflecting surging commodity prices and enhanced pricing power for corporations.

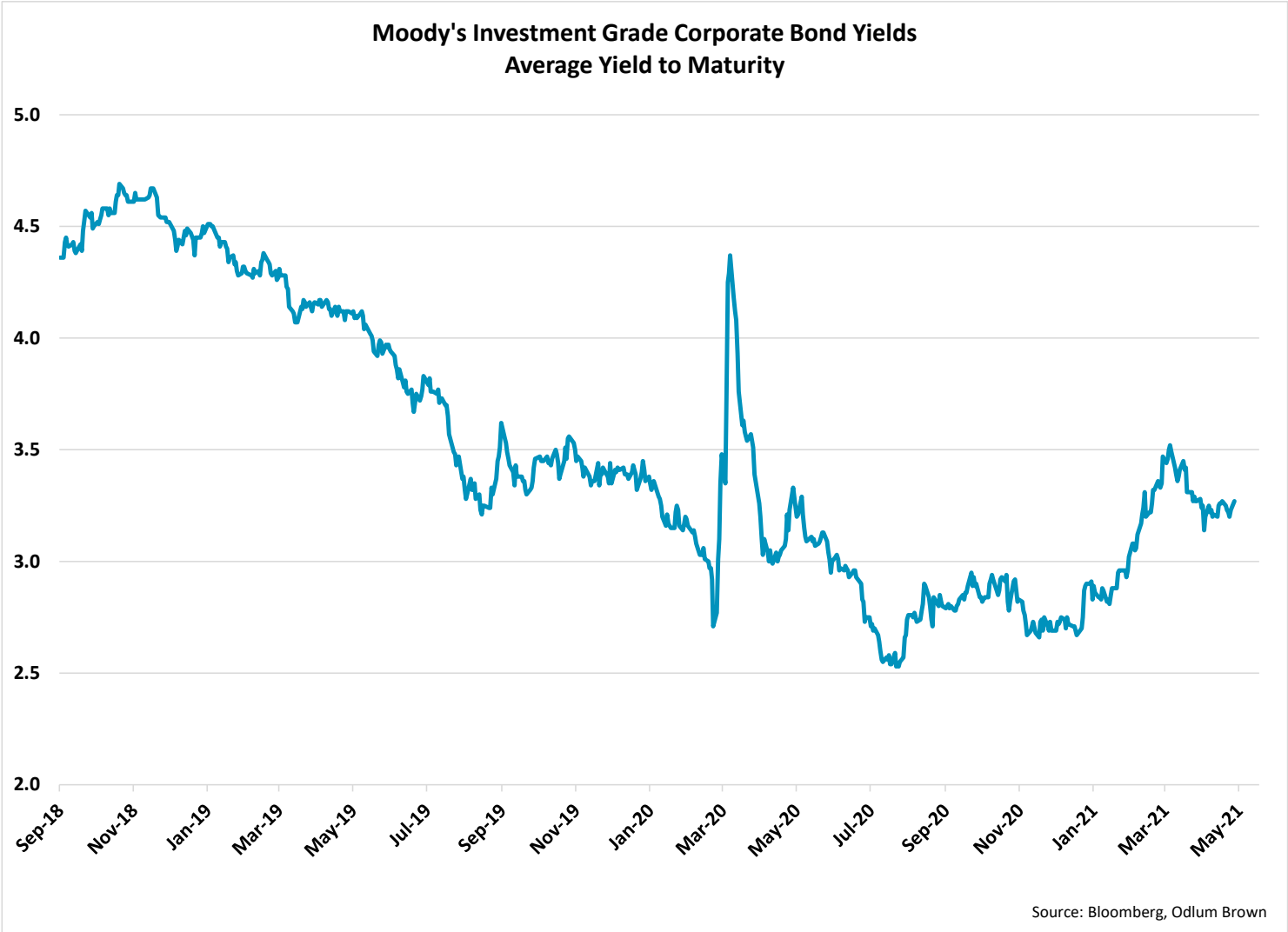
## U.S. 10-Year Treasury

Yield (%)

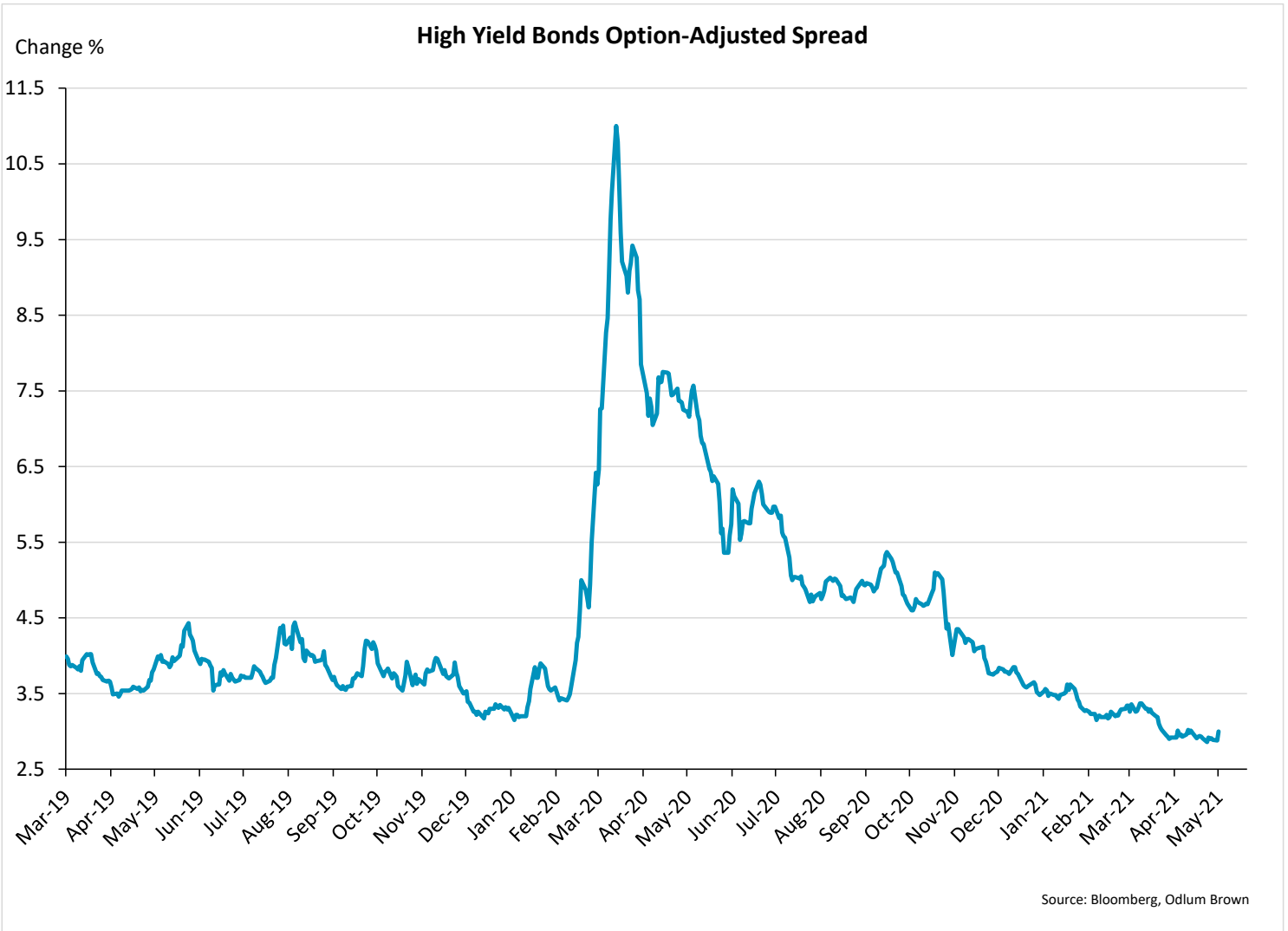


Source: Bloomberg, Odium Brown

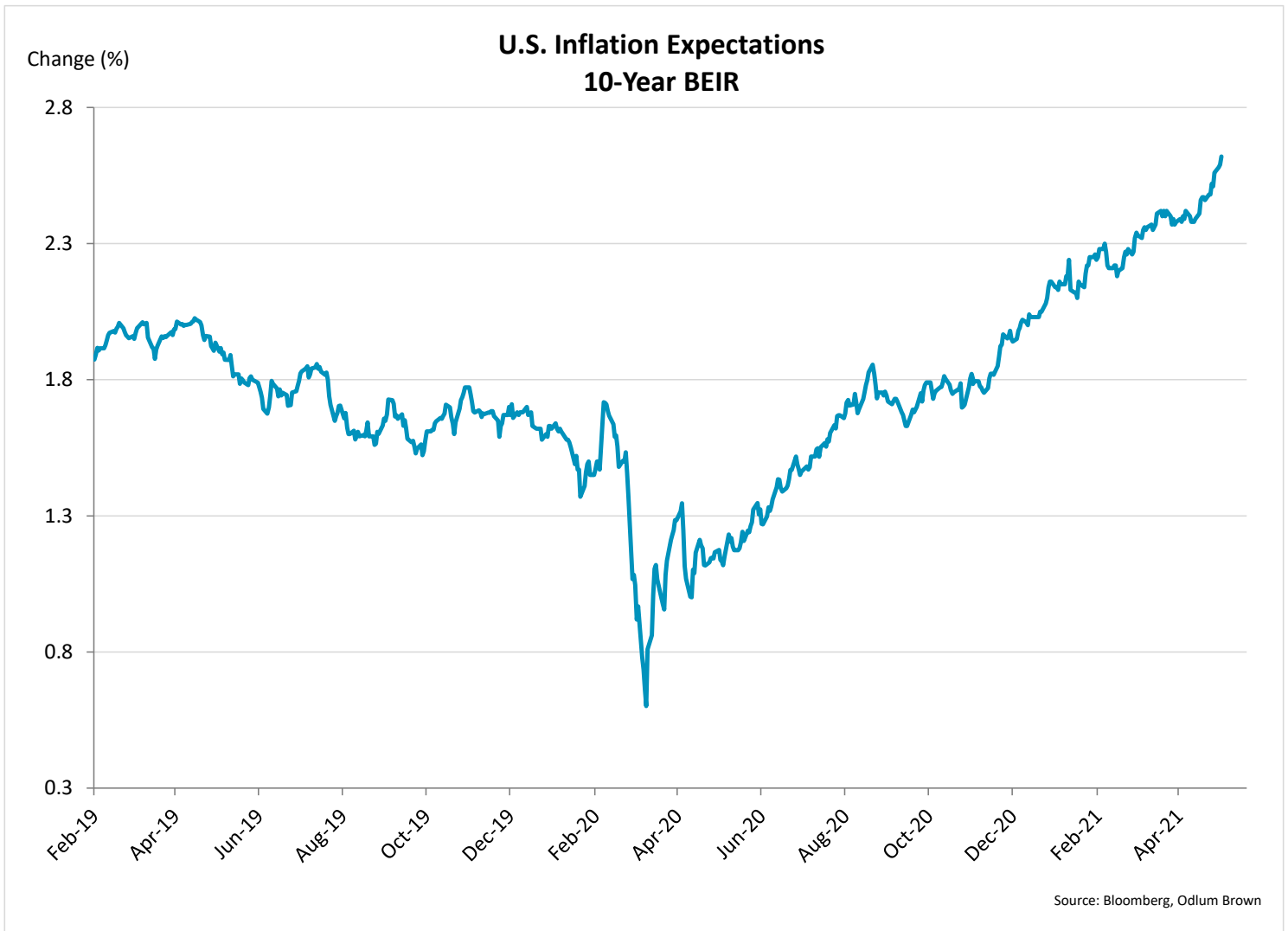
**This global bellwether moved decisively higher in yield during the first three months of 2021 but has stabilized thus far in April and May.**



**Investment-grade corporate bond yields began to move higher with U.S. Treasury yields and are tracking them as treasury yields consolidate.**



**The high yield market remains close to record low spreads.**



**Inflation expectations moved sharply higher.**

**Outlook**

After the pause in April, it is likely that bond yields will resume their upward trend. Bonds offer poor value at present levels, especially with rising inflation pushing real yields to even deeper negative territory. The lines are drawn between those forecasting a transitory increase in inflation and those looking ahead to accelerating inflation. With surging commodity prices, firming wages and massive monetary and fiscal stimuli, the odds favour a lasting pickup in inflation. Ultimately, the Fed will need to address its accommodative stance, and at least, move forward the timing of the first hike in the Fed Funds Rate and/or a tapering of its bond purchases. Bond yields should push to 2% and beyond.

**Strategy**

With an outlook for further increases in bond yields, the number-one theme for fixed income investors remains preservation of capital. We continue to stress the importance of including high-quality, fixed income securities of relatively short durations

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. Corporate bonds will generate only modest returns at best this year but will outperform government bonds. We have long recommended a laddered approach to fixed income investing. We continue to do so as a one- to five-year ladder has a short duration.

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.

---

Please read our Odlum Brown Limited Disclaimer and Disclosure - It is important!

Odlum Brown Limited is an independent, full-service investment firm focused on providing professional investment advice and objective research. We respect your right to be informed of relationships with the issuers or strategies referred to in this report which might reasonably be expected to indicate potential conflicts of interest with respect to the securities or any investment strategies discussed or recommended in this report. We do not act as a market maker in any securities and do not provide investment banking or advisory services to, or hold positions in, the issuers covered by our research. Analysts and their associates may, from time to time, hold securities of issuers discussed or recommended in this report because they personally have the conviction to follow their own research, but we have implemented internal policies that impose restrictions on when and how an Analyst may buy or sell securities they cover and any such interest will be disclosed in our report in accordance with regulatory policy. Our Analysts receive no direct compensation based on revenue from investment banking services. We describe our research policies in greater detail, including a description of our rating system and how we disseminate our research, on the Odlum Brown Limited website.

This report has been prepared by Odlum Brown Limited and is intended only for persons resident and located in all the provinces and territories of Canada, where Odlum Brown Limited's services and products may lawfully be offered for sale, and therein only to clients of Odlum Brown Limited. This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country including the United States, where such distribution or use would be contrary to law or regulation or which would subject Odlum Brown Limited to any registration requirement within such jurisdiction or country. As no regard has been made as to the specific investment objectives, financial situation, and other particular circumstances of any person who may receive this report, clients should seek the advice of a registered investment advisor and other professional advisors, as applicable, regarding the appropriateness of investing in any securities or any investment strategies discussed or recommended in this report.

This report is for information purposes only and is neither a solicitation for the purchase of securities nor an offer of securities. The information contained in this report has been compiled from sources we believe to be reliable, however, we make no guarantee, representation or warranty, expressed or implied, as to such information's accuracy or completeness. All opinions and estimates contained in this report, whether or not our own, are based on assumptions we believe to be reasonable as of the date of the report and are subject to change without notice.

Please note that, as at the date of this report, the Research Analyst responsible for the recommendations herein, associates of such Analyst and/or other individuals directly involved in the preparation of this report hold securities of some of the issuer(s) referred to directly or through derivatives.

No part of this publication may be reproduced without the express written consent of Odlum Brown Limited. Odlum Brown Limited is a Member of the Canadian Investor Protection Fund.

---