Monthly Fixed Income Update

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Interest Rate Summary	Oct-30-20	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	0.16%	1.57%	2.49%	1.89%	1.19%	1.31%
10-Year Treasury	0.88%	1.92%	2.69%	2.41%	2.44%	2.27%
Canada						
3-Month T-Bill	0.09%	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	0.66%	1.70%	1.97%	2.04%	1.72%	1.39%

Performance

	YTD	2019	2018	2017	2016	2015	2014
DEX Universe Bond Index	7.18%	6.87%	1.41%	2.52%	3.52%	3.52%	8.79%
DEX Federal Bond Index	6.97%	3.73%	2.39%	0.13%	3.66%	3.66%	6.91%
DEX Provincial Bond Index	8.04%	9.07%	0.66%	4.33%	4.14%	4.14%	12.18%
DEX All Corporate Index	6.17%	8.05%	1.10%	3.38%	2.71%	2.71%	7.58%
DEX “A” Corporate Index	6.27%	9.65%	0.51%	4.42%	2.62%	2.62%	9.10%
DEX Real Return Bonds	10.13%	8.02%	-0.05%	0.72%	2.79%	2.79%	13.18%
DEX High Yield Bonds	3.26%	8.48%	2.15%	5.20%	13.79%	-5.58%	2.64%

All sectors produced negative performance in October except for high yield bonds. Government bonds underperformed corporate bonds. Real return bonds continued to perform relatively well, and now are up over 10% year-to-date.

	Oct-30-20	Sep-30-20	Aug-31-20	Jul-31-20	Jun-30-20	May-29-20	Apr-30-20	Mar-31-20
U.S. 3-month T Bills	0.09%	0.10%	0.10%	0.09%	0.14%	0.14%	0.10%	0.09%
U.S. 2-year bonds	0.16%	0.13%	0.13%	0.11%	0.15%	0.16%	0.20%	0.25%
U.S. 10-year bonds	0.88%	0.69%	0.71%	0.53%	0.66%	0.65%	0.61%	0.67%

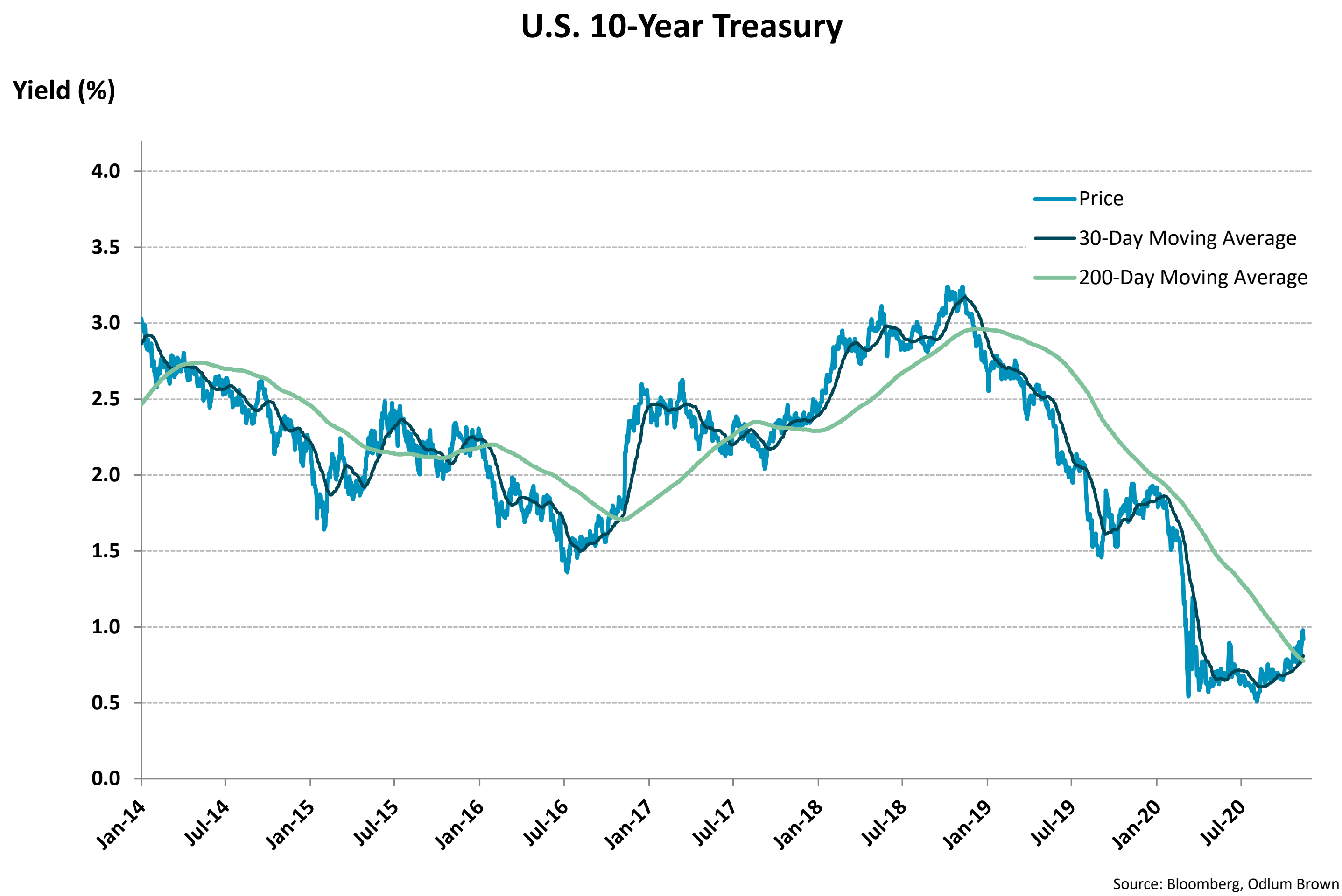
Bond yields moved higher and the yield curve steepened during the past six weeks. Short-term yields remain anchored by the Federal Reserve and the Bank of Canada and most other global central banks. The possibility of more fiscal stimulus plus an excess of supply of new government bonds versus demand pushed bond yields 30 basis points higher; the U.S. ten-year note is approaching the 1% psychological level.

Also, this rising yield pattern has a lot to do with the stop-and-go economic recovery; as per the evidence, the recovery has - been more “go” than “stop.” A slew of economic data – GDP, retail sales, consumer confidence, housing starts, building permits ,house sales and prices, manufacturing and employment, to name most of them – exceeded forecasts. At the same time, inflation, both reported and anticipated, remained benign.

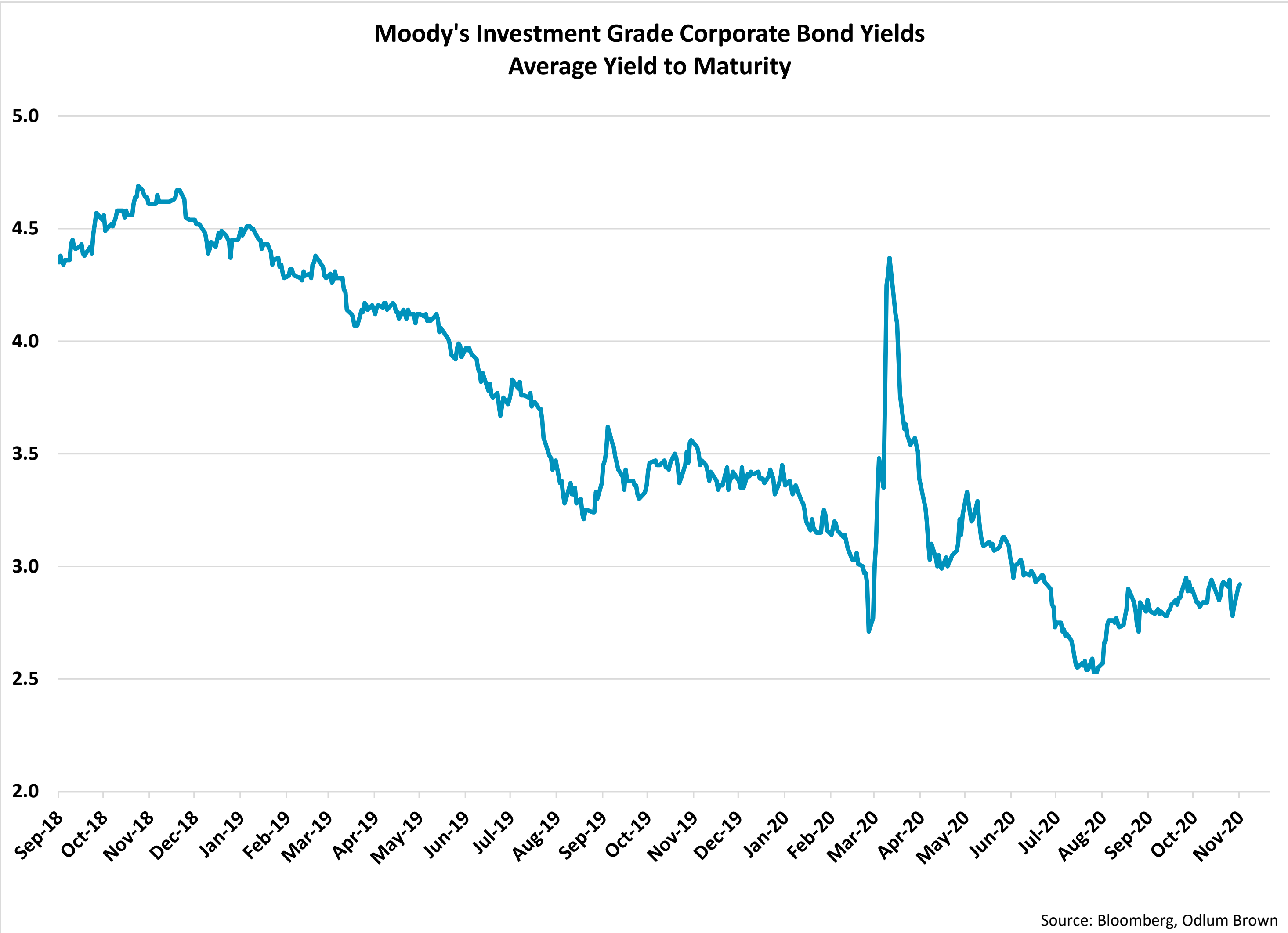
Globally, China's economic recovery broadened further, from manufacturing and PMIs to retail sales. Europe remains weak. Central Banks remain accommodative, with no let up in monetary ease in sight for at least two years. To this point, the Fed's quantitative easing (QE) purchases have not been able to prevent longer-term bond yields from rising as new issuance of government bonds exceeded demand; in addition, there are foreign sellers of long-term government bonds.

The Bank of Canada eased back its QE program but moved to buying more longer-term maturities, ostensibly to cap mortgage rates.

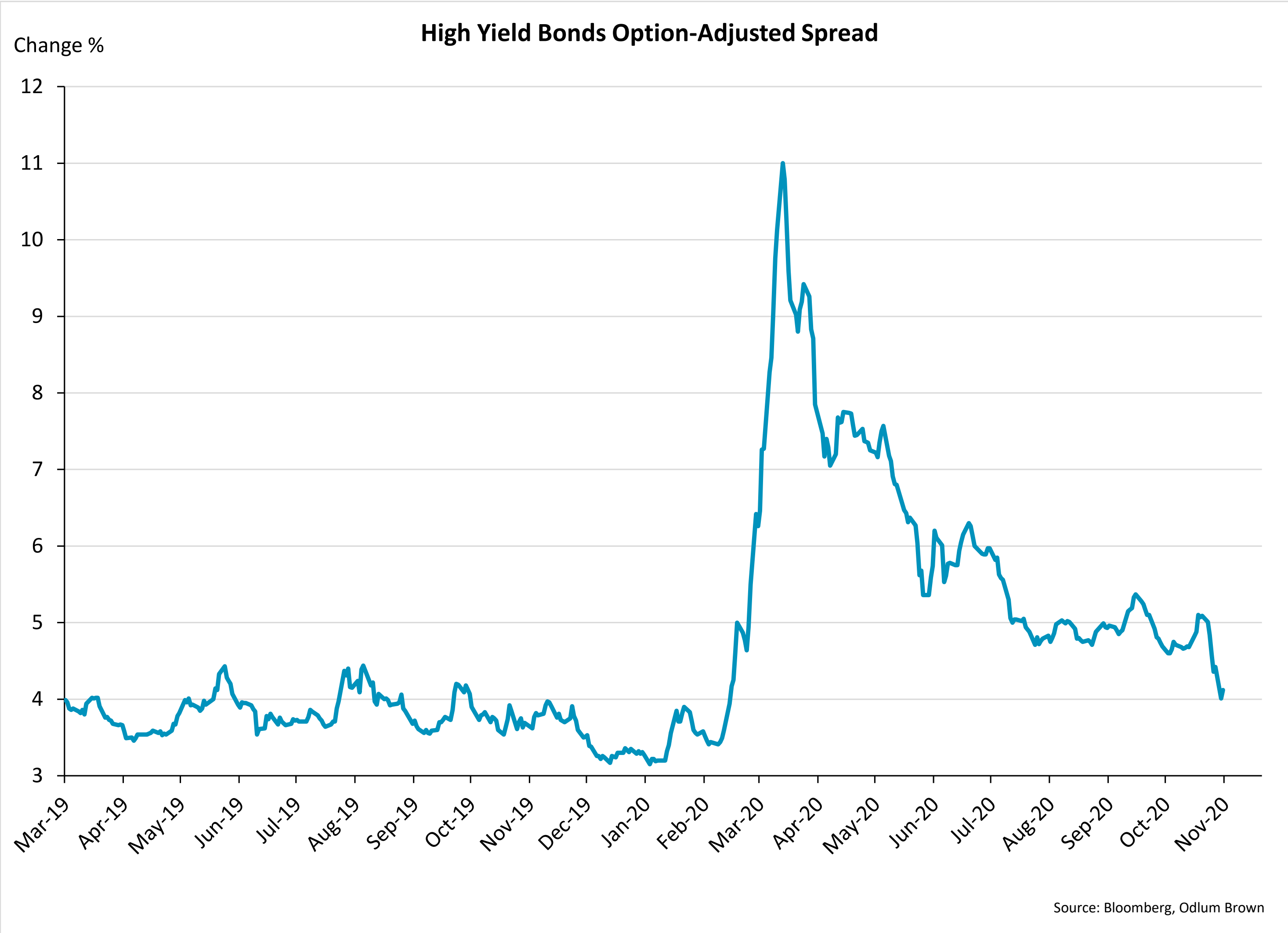
The corporate bond market, both for investment-grade and high yield bonds, remained vibrant. Corporate bonds retained much of their gains of the past six months.



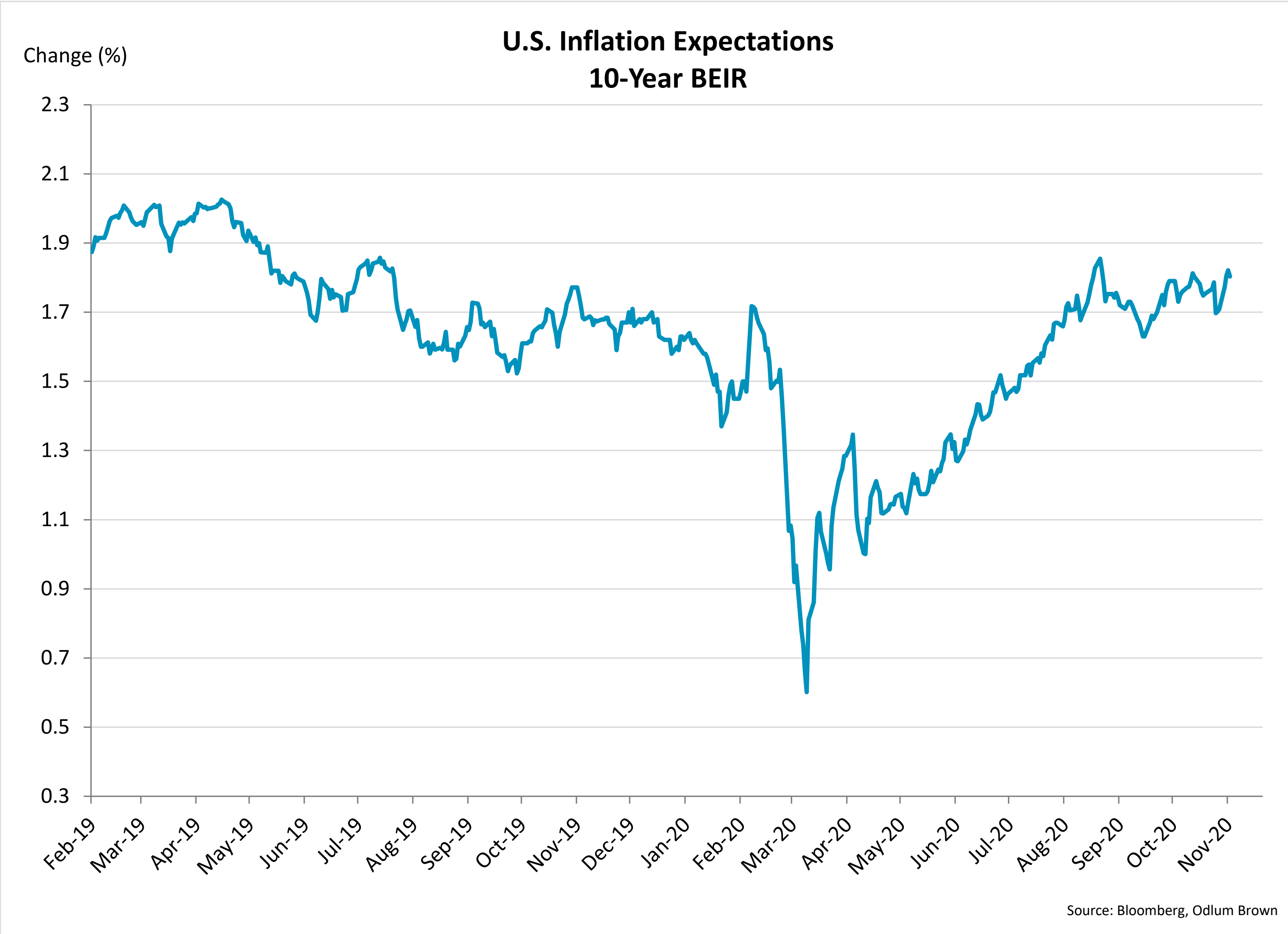
This global bellwether issue is displaying a mild upward pattern in yield.



Investment-grade corporate bonds reversed their improvement as U.S. Treasury yields moved up. Demand for corporate bonds remains strong.



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



Inflation expectations moved up but remain well below 2%.

Real bond yields began to retreat from maximum negative levels.

Outlook

We believe that the recent uptick in nominal bond yields will continue. This is despite no upward trend in inflation expectations. The corollary, as seen in the chart above, is for real bond yields to become less negative and to continue to trend towards zero. This is highly dependent on the recovery continuing to surprise on the upside. The prospects for another dramatic round of fiscal stimulus are uncertain but the recent developments in COVID-19 vaccines have brightened the economic outlook.

Thus, government bonds look expensive at today's levels. With real yields likely to keep trending towards positive territory and inflation expectations flat, nominal yields should rise with the bellwether ten-year U.S. note moving up past 1% in the near term and possibly reaching 1.25%; the yield curve will likely steepen further. Corporate bonds, particularly those with maturities less than five years, should continue to produce positive returns.

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 has ended for now 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.