Monthly Fixed Income Update

Hank Cunningham

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Interest Rate Summary	Sep-30-20	Dec-31-19	Dec-31-18	29-Dec-17	30-Dec-16	31-Dec-15
U.S.						
3-Month T-Bill	0.10%	1.55%	2.36%	1.38%	0.50%	0.16%
2-Year Treasury	0.13%	1.57%	2.49%	1.89%	1.19%	1.31%
10-Year Treasury	0.69%	1.92%	2.69%	2.41%	2.44%	2.27%
Canada						
3-Month T-Bill	0.12%	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	0.56%	1.70%	1.97%	2.04%	1.72%	1.39%

Performance

	YTD	2019	2018	2017	2016	2015	2014
DEX Universe Bond Index	8.00%	6.87%	1.41%	2.52%	3.52%	3.52%	8.79%
DEX Federal Bond Index	7.55%	3.73%	2.39%	0.13%	3.66%	3.66%	6.91%
DEX Provincial Bond Index	9.20%	9.07%	0.66%	4.33%	4.14%	4.14%	12.18%
DEX All Corporate Index	6.82%	8.05%	1.10%	3.38%	2.71%	2.71%	7.58%
DEX "A" Corporate Index	7.00%	9.65%	0.51%	4.42%	2.62%	2.62%	9.10%
DEX Real Return Bonds	10.99%	8.02%	-0.05%	0.72%	2.79%	2.79%	13.18%
DEX High Yield Bonds	2.46%	8.48%	2.15%	5.20%	13.79%	-5.58%	2.64%

All sectors produced positive performance in September. For the first time in five months, government bonds outperformed corporate bonds as the credit rally petered out. Real return bonds continued to perform well.

	Sep-30-20	Aug-31-20	Jul-31-20	Jun-30-20	May-29-20	Apr-30-20	Mar-31-20	Feb-28-20
U.S. 3-month T Bills	0.10%	0.10%	0.09%	0.14%	0.14%	0.10%	0.09%	1.28%
U.S. 2-year bonds	0.13%	0.13%	0.11%	0.15%	0.16%	0.20%	0.25%	0.92%
U.S. 10-year bonds	0.69%	0.71%	0.53%	0.66%	0.65%	0.61%	0.67%	1.15%

After rising in August, yields were largely unchanged in September. Central banks are anchoring short-term yields near zero. The stop-and-go economic recovery continued in North America in September and thus far into October. Growth, while positive, has been uneven around most of the globe. The recovery in China, the first major country out of the pandemic, has gathered strength and has broadened from industrial production to retail sales.

The labour market has continued to add jobs, although the latest U.S. employment numbers were weaker than forecasted. Canada, however, produced a blockbuster jobs report; adding some 374,000 jobs, more than twice consensus estimate.

Overall, inflation expectations softened and commodity prices, notably gold and copper, eased.

On the positive side, manufacturing expanded, existing and new home sales soared, while consumer confidence remained elevated. Retail sales were disappointing as were housing starts.

The Federal Reserve issued dovish comments following the latest FOMC meeting in mid-September. Bond yields fell in the aftermath but they moved back up after the economic indicators came in positive.

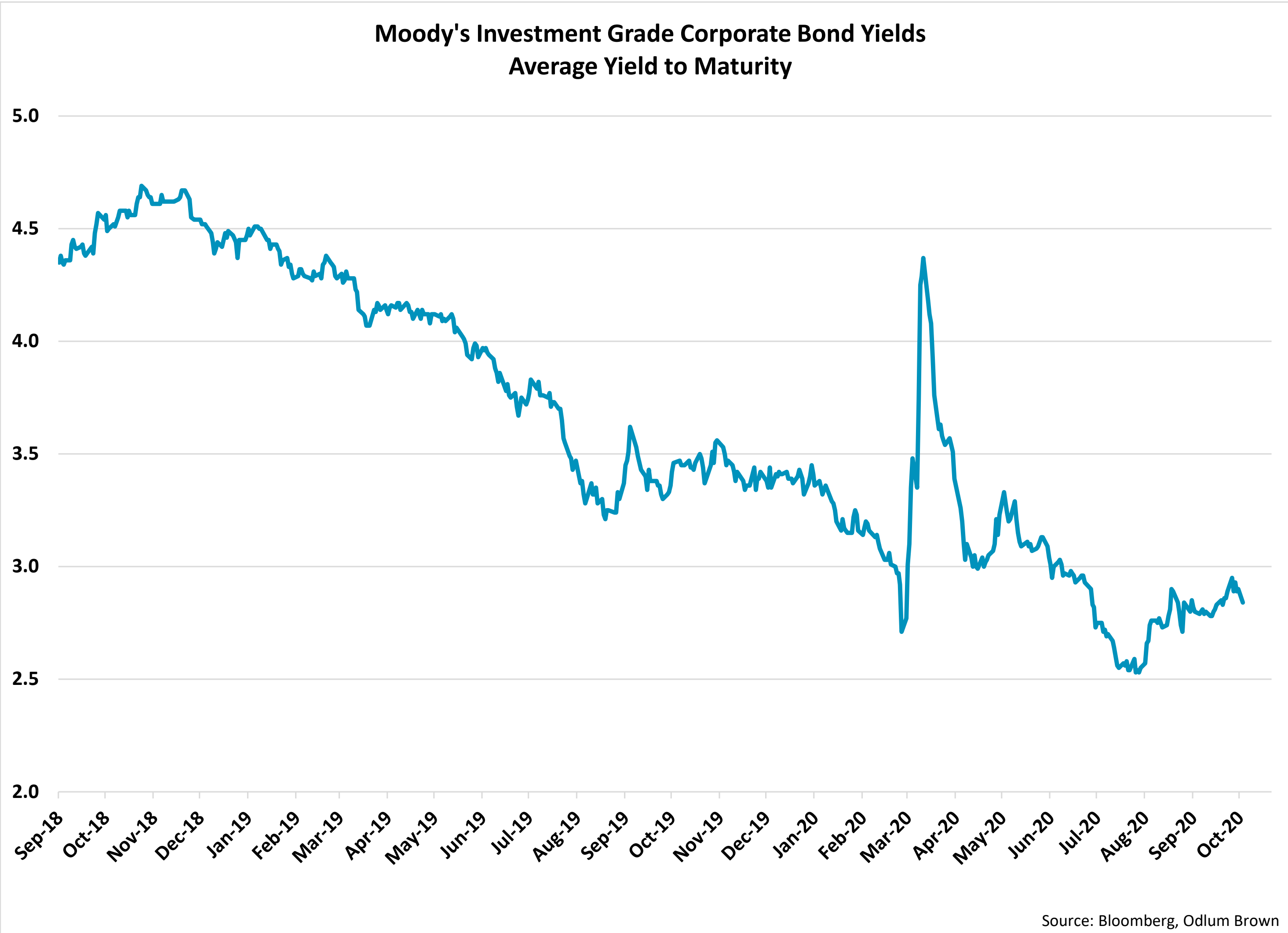
Earlier in October, bond yields pushed to four-month highs and the yield curve steepened. This was a result of heightened expectations for another round of fiscal stimulus; it also contributed to the end of the rally in investment grade and high yield bonds. For the third quarter, there were $267 billion worth of new corporate issues, which is a new record.

As to Canada, our GDP rose 3% in July with an increase of 1% forecast for August. This leaves Canada 5.8% below the February level. Our inflation numbers are much weaker than in the U.S.

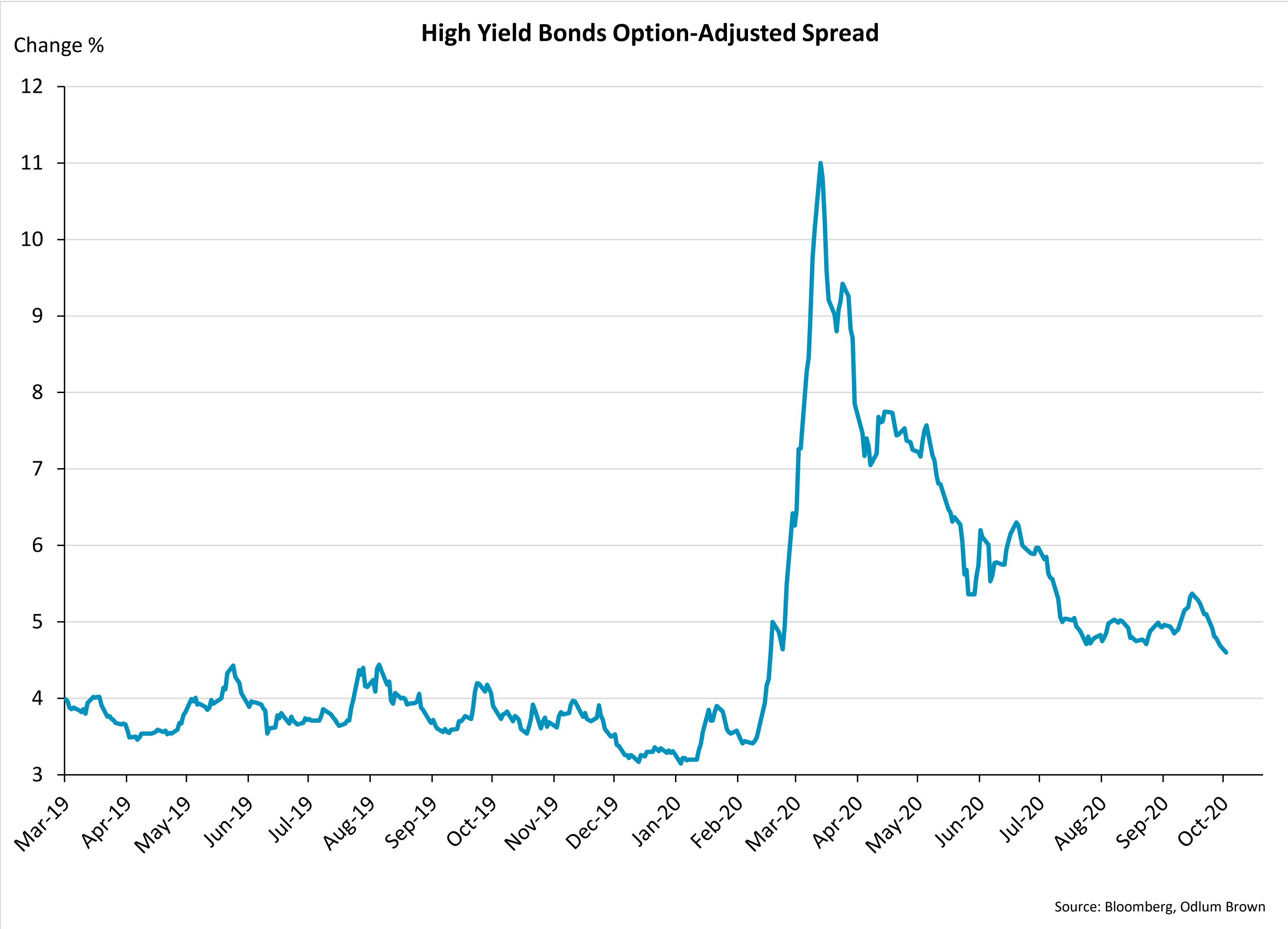
U.S. 10-Year Treasury

Source: Bloomberg, Odlum Brown

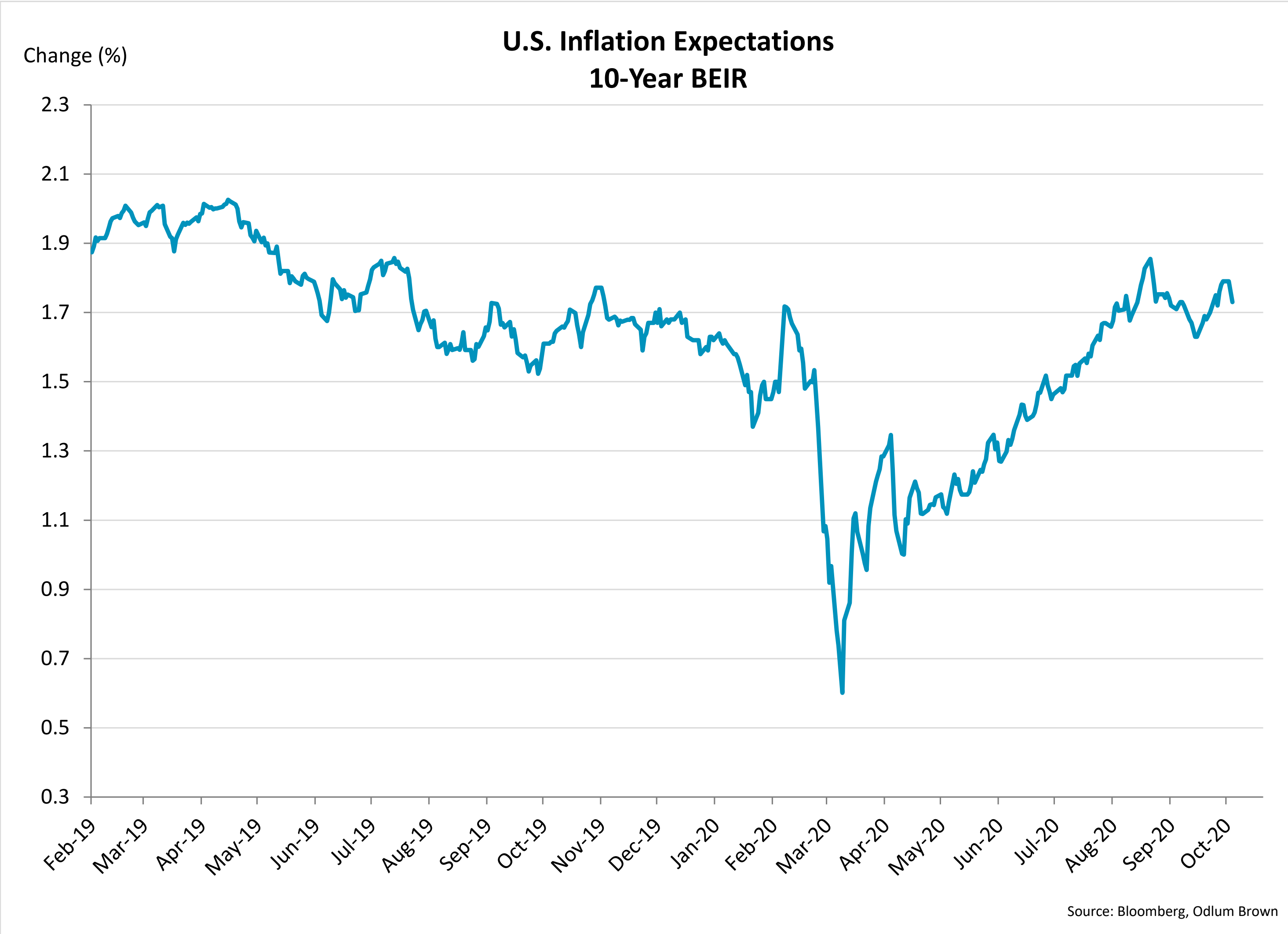
This global bellwether issue is displaying a mild upward pattern in yield.



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



The high yield market has also improved but in an uneven fashion. After pausing as U.S. Treasury yields ticked up, high yield bonds improved.



Inflation expectations eased in the past month.

Outlook

We expect the stop-and-go U.S. economic recovery to continue; it may begin to falter unless another round of fiscal stimulus happens. There is uncertainty about this stimulus and there is also the matter of the election.

For now, inflation expectations have eased. Central banks have maintained liberal monetary policies with no change likely for a couple of years. The burden thus falls on the fiscal side where more stimulus is necessary while the pandemic continues.

There is an upward bias to bond yields and there is a possibility that the U.S. Ten-year note could reach 1%. Central banks are loath to let rising bond yields interfere with the recovery. While they appear to be opposed to formal yield curve control, they could extend the term of their quantitative easing purchases to contain yields.

Consumer confidence and retail sales will continue to be key indicators for the trend of the economy and bond 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, 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.