Monthly Fixed Income Update

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Interest Rate Summary	Sep-29-21	Aug-31-21	Jul-30-21	Jun-30-21	May-31-21	Apr-30-21	Mar-31-21	Dec-31-20
U.S.								
3-Month T-Bill	0.04%	0.04%	0.04%	0.04%	0.01%	0.01%	0.02%	0.08%
2-Year Treasury	0.28%	0.21%	0.19%	0.25%	0.14%	0.16%	0.16%	0.12%
10-Year Treasury	1.49%	1.31%	1.22%	1.46%	1.60%	1.63%	1.74%	0.92%
Canada								
3-Month T-Bill	0.13%	0.16%	0.17%	0.14%	0.11%	0.10%	0.08%	0.06%
2-Year Canada	0.53%	0.42%	0.45%	0.45%	0.32%	0.30%	0.22%	0.20%
10-Year Canada	1.51%	1.21%	1.20%	1.39%	1.48%	1.54%	1.56%	0.68%

Performance

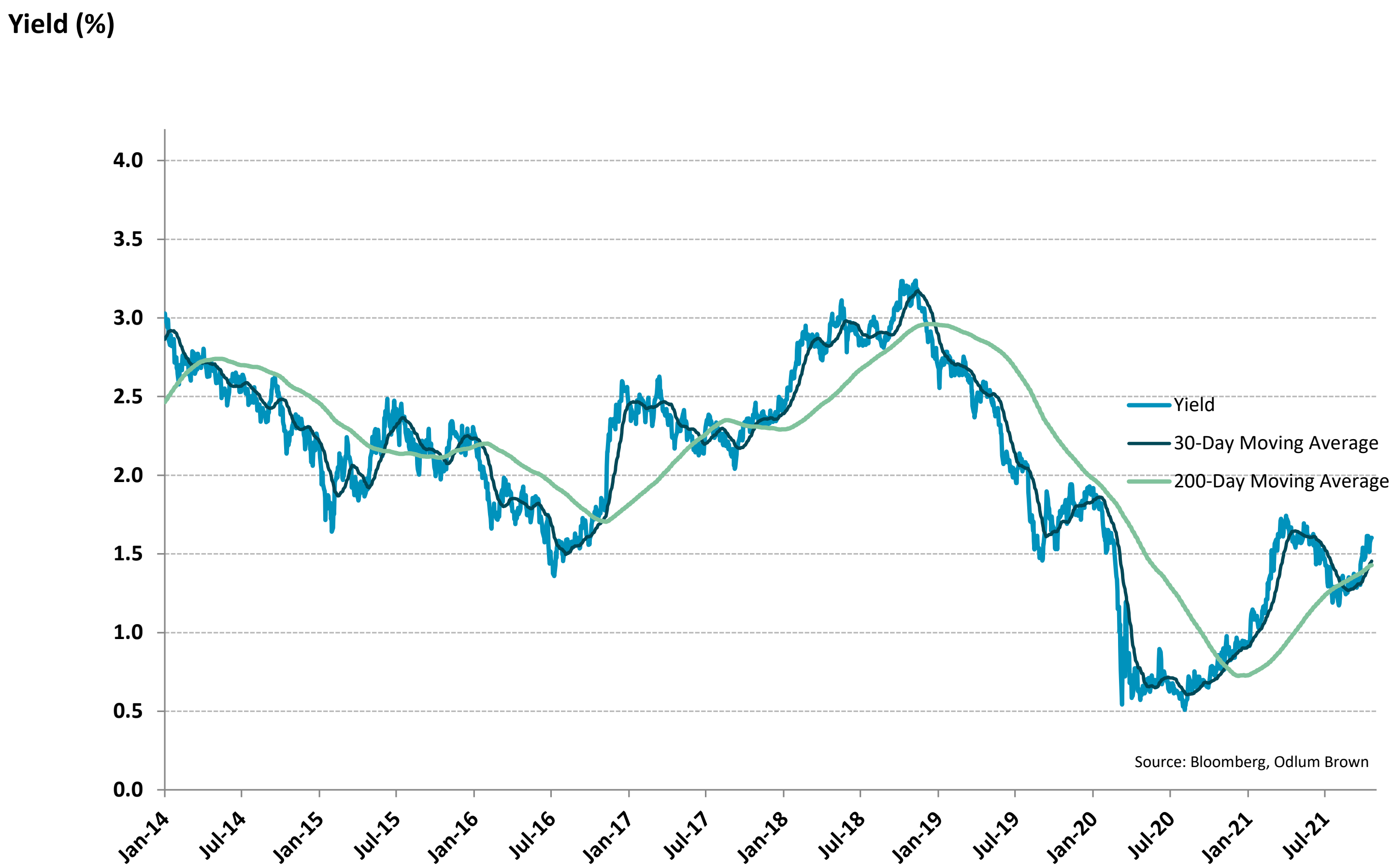
	YTD	2020	2019	2018	2017	2016	2015
DEX Universe Bond Index	-3.95%	8.68%	6.87%	1.41%	2.52%	3.52%	3.52%
DEX Federal Bond Index	-3.35%	7.28%	3.73%	2.39%	0.13%	3.66%	3.66%
DEX Provincial Bond Index	-5.55%	9.86%	9.07%	0.66%	4.33%	4.14%	4.14%
DEX All Corporate Index	-2.39%	8.74%	8.05%	1.10%	3.38%	2.71%	2.71%
DEX "A" Corporate Index	-3.67%	8.98%	9.65%	0.51%	4.42%	2.62%	2.62%
DEX Real Return Bonds	-4.29%	13.02%	8.02%	-0.05%	0.72%	2.79%	2.79%
DEX High Yield Bonds	6.20%	6.69%	8.48%	2.15%	5.20%	13.79%	-5.58%

Bond yields, both short-term and long-term, have been rising steadily since mid-August. The two-year yield has advanced 20 basis points while the bellwether ten-year yield has risen by 36 basis points. Reasons are not hard to find: inflation is rising faster and further than expected, reaching multi-year highs in many countries. This is despite protestations from several central banks that inflation will abate to normal levels. These same central banks, the Federal Reserve, Bank of Canada, Bank of England and the ECB, are signaling the beginning of the end to their tapering programs, before year-end.

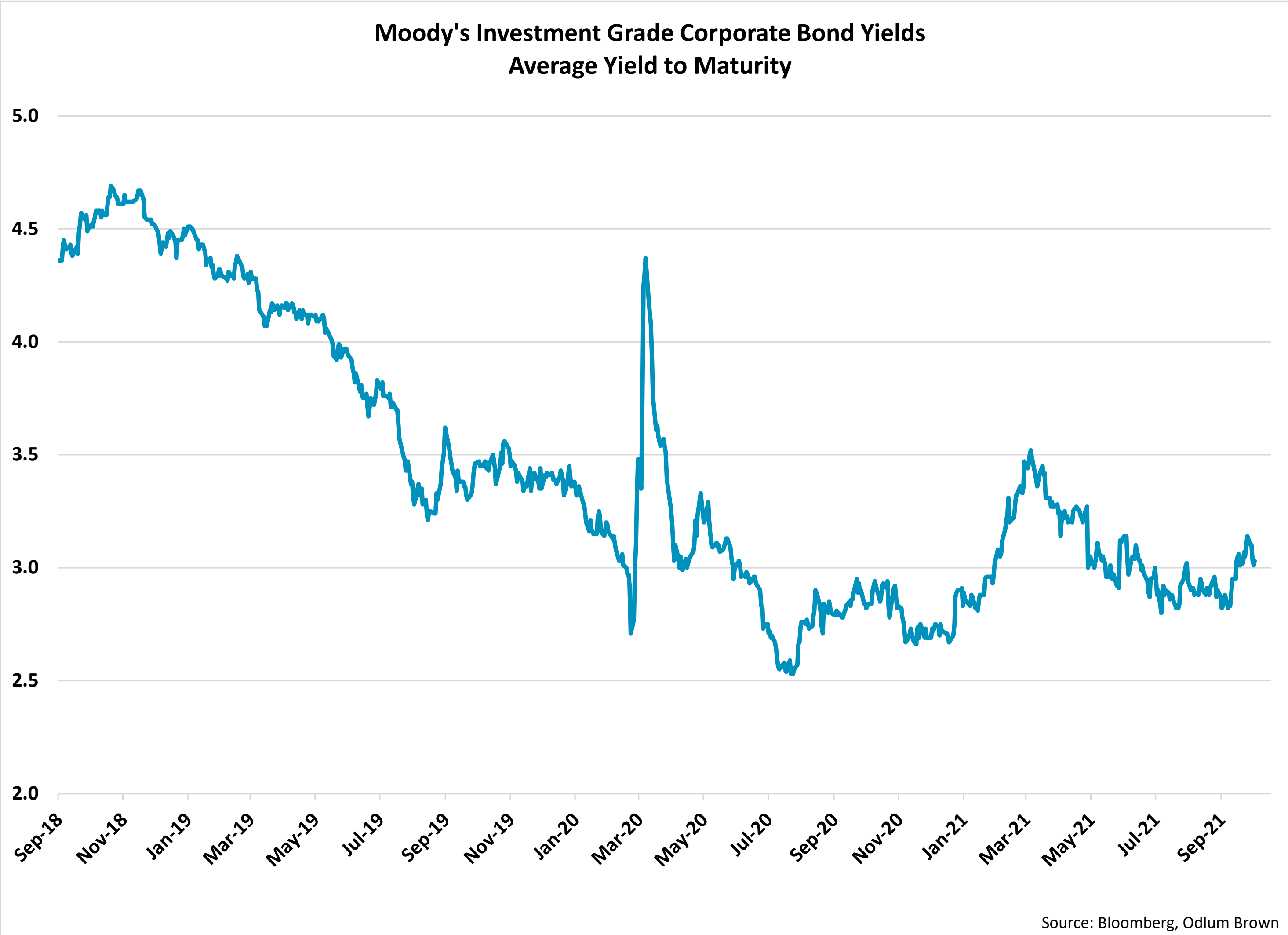
Bond yields have been rising globally also; the German ten-year yield is approaching zero after years of being deeply negative. While break-even yields have risen, the bulk of the gain in yields can be attributed to a rise in real yields (i.e. less negative.) Global growth estimates have been scaled back somewhat but, with massive fiscal and monetary stimulus still in place, forecasts remain for above-trend growth.

In North America, employment markets are taut with strong growth in net employment, falling unemployment rates, and a huge demand for workers. For example, the U.S. has job openings for some 10 million workers. Canada reported a blockbuster jobs report, putting our labour force at per-pandemic levels.

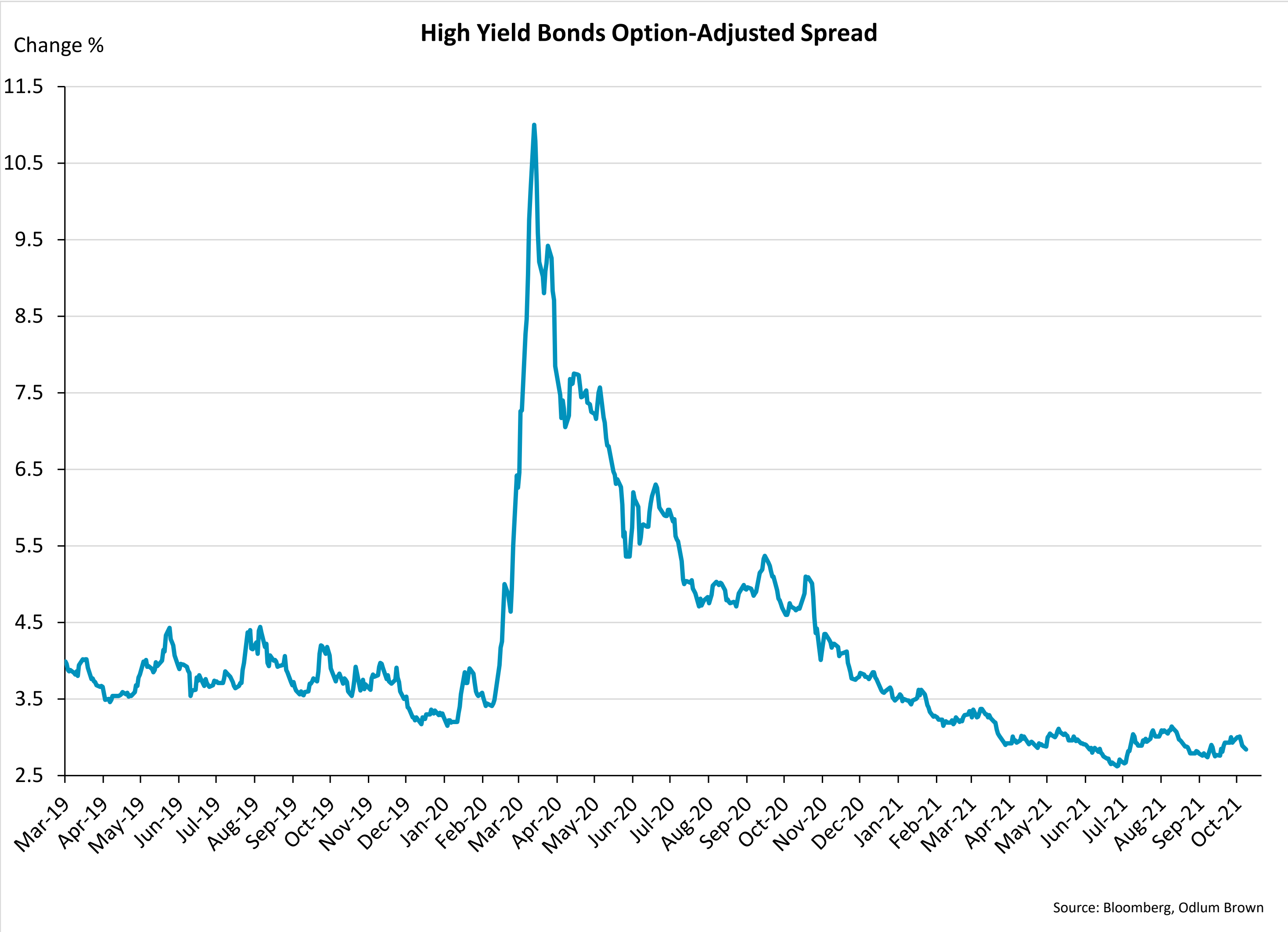
U.S. 10-Year Treasury



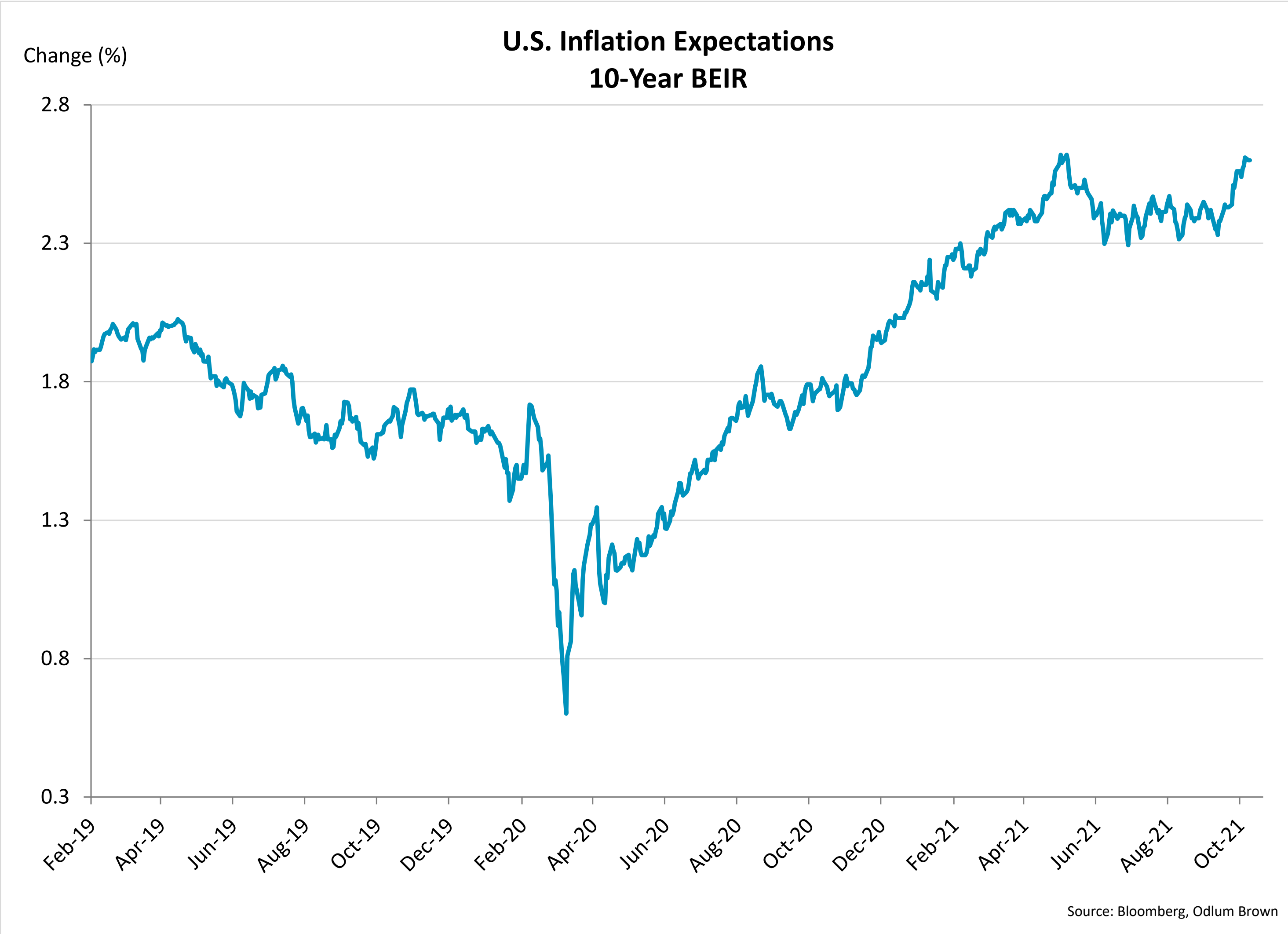
This benchmark's yield, after plunging in early August, bounced up by 36 basis points since that low. It is at a critical technical juncture, right at the main moving averages and is approaching the 12-month high.



Investment-grade corporate bond yields began to move higher with U.S. Treasury yields early in the year and continue to track them closely, despite record issuance.



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



After moving steadily lower, inflation expectations have climbed to two-year highs.

Outlook

With massive fiscal stimulus (and more expected to come), extremely accommodative monetary policy, and upside surprises on inflation, which threaten to remain at elevated levels, we anticipate that bond yields will continue to work themselves higher. Real yields are still negative, but less so and global growth has proven to be resilient.

The 10-year, currently at 1.60%, is approaching the 12-month high of 1.74%, which it reached this past March. As yields approach this level, we expect some consolidation, perhaps making 1.75% a reasonable year-end target.

Corporate bond markets have been well-behaved, absorbing high volumes of new issues. Yield spreads of high yield and investment-grade remain tight to government bonds and we expect little change in these spreads.

Overall, we may be in a bear market for bonds. The move higher in short-term yields is a harbinger of the tapering about to begin.

Strategy

This is a time to defend principal in the bond market as investing in long-term bonds, which, while offering higher nominal yields than shorter-term bonds, carry significant capital loss potential for any rise in long-term yields. Thus, we counsel investors not to reach for yield, but to invest in short-term, high-quality corporates instead, perhaps in the form of a bond ladder. This approach will defend principal while producing modest returns.

Specifically, we recommend a laddered approach using the **Odlum Brown Corporate Bond Ladder**. GICs could be used in the ladder as well. In addition, we adopted the use of outside bond investment managers to augment returns. We continue to do so; our top recommended funds are:

- **Picton Mahoney Liquid Alt Fund.** This is a well-managed long/short fund and is available as an ETF.
- **Canso Short-term and Floating-Rate Fund.** This fund protects principal and takes advantage of opportunities in the floating-rate market.
- **Canso Corporate Value Fund.** This is a well-managed, long-only corporate bond fund.

Please consult your Investment Advisor or Portfolio Manager for more details and to discuss this strategy.