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With a special contribution provided by fixed income specialists Algonquin Capital

CURRENT & FORECASTED YIELDS

A look at current yields, forward expected yields, and SWP's view on where bond prices are heading

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See page 2 for Table Details:

Current Yields				Forecasted			
	Last	Chg 1M	Chg 6M	Mar-2023	Jun-2023	Sep-2023	Dec-2023
1M	3.65%	+39.0	+283.1	-	-	-	-
2M	3.80%	-5.0	+268.5	-	-	-	-
3M	4.10%	+10.0	+270.7	-	-	-	-
6M	4.29%	+2.0	+242.5	-	-	-	-
1Y	4.44%	-2.0	+203.8	5.46%	6.27%	7.21%	7.87%
2Y	3.91%	-25.3	+133.2	4.66%	5.11%	6.04%	6.52%
3Y	3.67%	-45.0	+107.9	4.22%	4.59%	5.42%	5.85%
4Y	3.40%	-46.3	+78.6	3.71%	3.96%	4.65%	4.96%
5Y	3.18%	-54.4	+49.6	3.40%	3.55%	4.16%	4.42%
7Y	2.95%	-64.5	+26.2	2.99%	3.09%	3.61%	3.77%
10Y	2.95%	-62.9	+12.0	2.96%	3.01%	3.49%	3.62%
20Y	3.06%	-69.7	+13.1	3.15%	3.24%	3.65%	3.77%
30Y	2.96%	-69.7	+15.3	3.05%	3.12%	3.48%	3.56%

As at November 24, 2022

Key Interest Rate Observations:

(as at November 24, 2022)

From latest BoC (Canada) and Fed (US) Meetings

Canada

- The Bank of Canada raised rates by only +50 basis points last meeting, bringing the policy rate up to 3.75% but falling out of sync with the US (who raised +75 basis points)
- Inflation continues to broaden, particularly in the services sector, ringing in at 6.9% for the month of October - *combine that with stronger than expected labour data, hourly wages up +5% YoY. An additional +50 basis point hike in December is quite certain*
- Economists have mixed opinions on where the policy rate will peak, but the consensus is an additional +50 to +75 basis points, with rates topping in Q2 '23

United States

- The Federal Reserve hiked rates by +75 basis points last meeting, making history by approving a fourth consecutive three-quarter-point hike. The supersized hike was thought unfathomable by markets a month ago, but is proving to be necessary after a greatly underestimated magnitude of inflation
- Even with the highest rates America has seen since 2008 (during the global financial crisis) market expectations are split between an additional +50 or +75 basis points at the December meeting

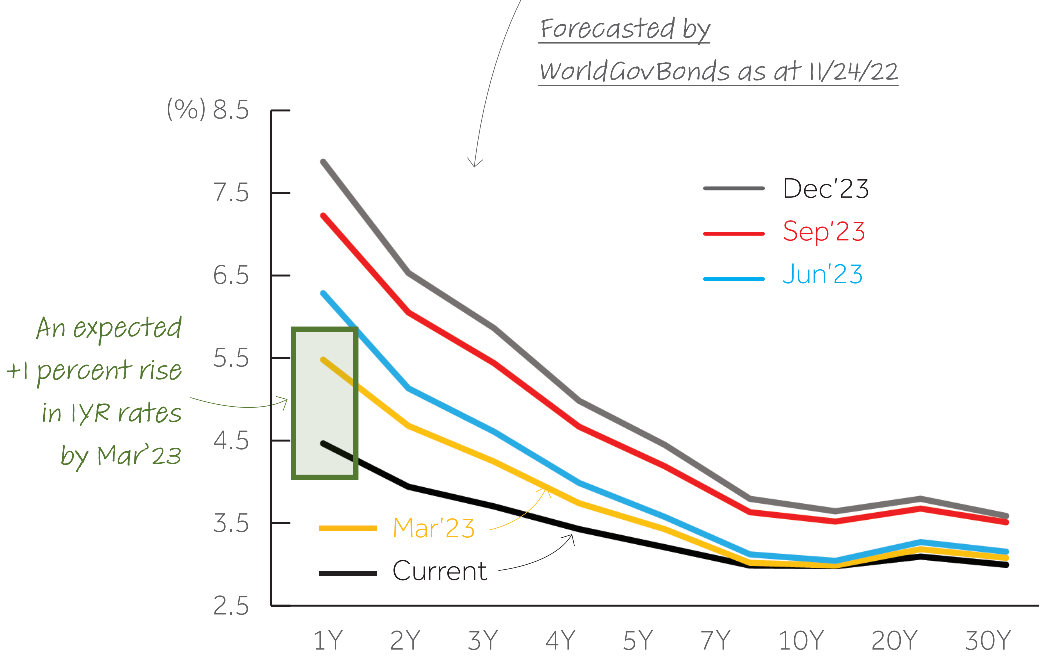
Current and Forecasted Yields:

(as at November 24, 2022)

The most current yields and expectations forecasted by WorldGovBonds

Current Yields				Forecasted			
	Last	**Chg 1M bp**	**Chg 6M bp**	**Mar-2023**	**Jun-2023**	**Sep-2023**	**Dec-2023**
1M	3.65%	+39.0	+283.1	-	-	-	-
2M	3.80%	-5.0	+268.5	-	-	-	-
3M	4.10%	+10.0	+270.7	-	-	-	-
6M	4.29%	+2.0	+242.5	-	-	-	-
1Y	4.44%	-2.0	+203.8	5.46%	6.27%	7.21%	7.87%
2Y	3.91%	-25.3	+133.2	4.66%	5.11%	6.04%	6.52%
3Y	3.67%	-45.0	+107.9	4.22%	4.59%	5.42%	5.85%
4Y	3.40%	-46.3	+78.6	3.71%	3.96%	4.65%	4.96%
5Y	3.18%	-54.4	+49.6	3.40%	3.55%	4.16%	4.42%
7Y	2.95%	-64.5	+26.2	2.99%	3.09%	3.61%	3.77%
10Y	2.95%	-62.9	+12.0	2.96%	3.01%	3.49%	3.62%
20Y	3.06%	-69.7	+13.1	3.15%	3.24%	3.65%	3.77%
30Y	2.96%	-69.7	+15.3	3.05%	3.12%	3.48%	3.56%

As at November 24, 2022



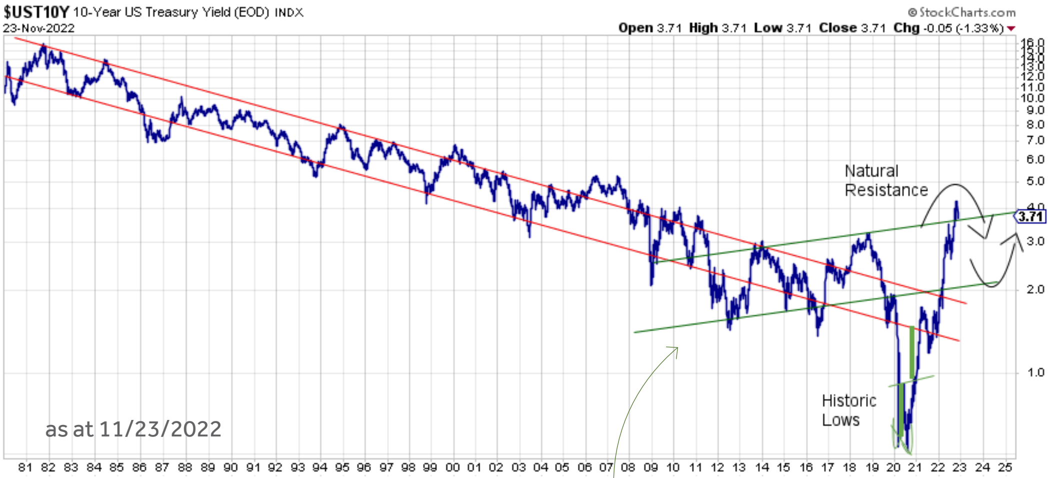
As at November 24, 2022

When Are We Buyers of Bonds?

Stenner Wealth Partners+ opines on interest rates

40 Years of Falling Rates

Rates have been on a downward spiral since the early 80s. As central banks across the world have coordinated to target steady inflation and low unemployment, they have also had to deploy extraordinary measures during times of crisis. Markets have become very used to historically low rates, but as depicted in the chart below, the last few years have been well below target. An extraordinary amount of excess dollars has been chasing fewer goods across the world.



A Glass Ceiling

Despite the haranguing of pundits and politicians alike, it is clear we are in a global recession. We believe a subtle point has been missed - *rates have been rising in anticipation of inflation since mid-2012 (COVID has only advanced the issue a little quicker).* Now that we sit at >3.7% yield on the 10-Year US Treasury, valuations and stock markets have been adjusting lower (especially tech) to the new reality, creating volatility and unrest.

Actively Manage Through the Tough Times

Heading into 2022, we reasoned active management in fixed income would fare better than passive indexing. Our suspicions were correct as aggregate bond funds have sold off approx -10% versus our actively managed fund selections, which hover around a flat return on the year. Our other approach was to select uncorrelated alternative real asset classes, such as student housing, which have been annualizing at +6% on the year and have maintained a steady distribution.

When Stocks Dip Too Low, Bonds React (the future)

When markets decline too forcefully, and make their disdain known, it is typical to see rates adjust lower to help prop up public securities / markets. As per our chart above, we believe that a glass celling is observable for rates at the 5% level. With a gridlocked government, the Federal Reserve will have more pressure on it than ever to ease the pain (at least temporarily). This opens up a tactical opportunity to purchase select maturities of bonds, in anticipation of lower yields, and thus higher bond prices. We caveat that this may be a short-lived strategy, and tradable opportunity, within the context of an overall bumpy ride to lower rates. Feel free to contact us for more information.

Special Contribution

Bonds Are Back, Baby

Special contribution provided by fixed income specialists Algonquin Capital

After several years of ultra-low yields and return-free risk, bonds are once again offering investors attractive value. High interest rates offer both greater income and return potential.

The Later Innings

As inflation has moved from 'transitory' to 'entrenched', expectations on how high central banks need to hike rates have kept adjusting higher. Currently, bond markets are pricing in overnight rates reaching 4.25-4.75% in Canada and 4.75-5.25% in the US.

When and where the central bankers stop raising rates will ultimately be determined by inflation. The good news is that we are seeing some positive developments on this front, as supply chain disruptions get resolved and both higher interest rates and prices put a drag on the demand side of the equation.

We, therefore, do feel it safe to say that 'we are closer to the end than to the beginning' of this hiking cycle.

What Goes Up, Must Come Down?

Normally, just because interest rates go up, there is nothing to say that they must come down. But given how high rates are expected to go, it does seem reasonable to assume that at some point they will be reversing course.

The Bank of Canada (BoC) sees the neutral level for the policy rate in the range of 2-3%. This is where rates are neither stimulative nor restrictive. Thus, an overnight rate of 4.0-4.5% clearly puts us into restrictive monetary policy, designed to slow the economy and tame inflation.

It, therefore, seems logical that once inflation shows a sufficient downward trajectory, the BoC would move back towards neutral and start cutting rates. And declining rates provide a boost to fixed-income returns.

The Road Ahead.

When financial markets reach turning points there are usually many bumps in the road and violent moves that defy explanation. By the time you read that central banks are contemplating cutting, rates will have already gapped lower. On the other side, if inflation continues to run hot, there is the potential for them to swing higher on expectations more hikes are coming.

Thus, while the value in bond markets warrants consideration and investment, allocations should be directed to managers with the flexibility to adjust and adapt. As while we loathe predictions about the future, we can almost be certain that there will be lots of volatility ahead.

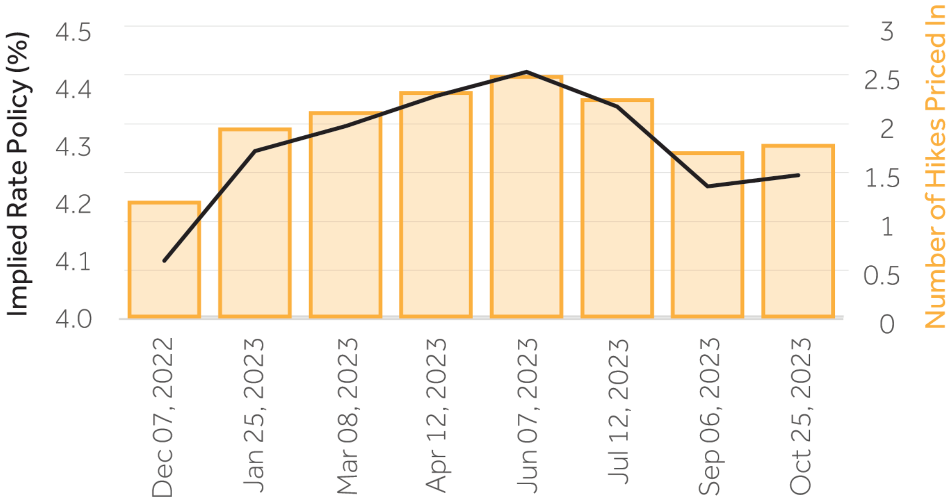
Visit Algonquin Capital's Monthly Commentaries

Key Interest Rate Observations:

A simplified look at the current structure of yield curves and rate hikes

Canada Implied Overnight Rate and Number of Hikes

- Note below the trajectory of interest rate hikes and implied rate levels over the next one year period. Source: Overnight Index Swaps / Bloomberg



As at November 24, 2022

Canada Yield Curve Analysis

- When short term yields are greater than long term rates we encounter the rare situation of inversion. Inversion can imply greater risk over the short term for the economy (inversion depicted in red below (a normal economic situation would see no rate inversion). Data Source: WorldGovBonds

Residual Maturity	Yield	3M	1Y	2Y	5Y	10Y	Spread v BoC Rate (3.75%)
30 years	2.96%	-113.7	-147.7	-95.1	-21.5	1.7	-78.7 bp
10 years	2.95%	-115.4	-149.4	-96.8	-23.2		-80.4 bp
5 years	3.18%	-92.2	-126.2	-73.6			-57.2 bp
2 years	3.91%	-18.6	-52.6				16.4 bp
1 year	4.44%	34.0					69.0 bp
3 months	4.10%						35.0 bp

Focusing on 2 years Government Bond:

2Y vs 1Y	-52.6	Yield Curve is inverted in Short-Term Maturities
5Y vs 2Y	-73.6	Yield Curve is inverted in Mid-Term vs Short-Term Maturities
10Y vs 2Y	-96.8	Yield Curve is inverted in Long-Term vs Short-Term Maturities

As at November 24, 2022

Thane Stenner, CIM®, FCSI®
Sr Portfolio Manager
Sr Wealth Advisor
Group Founder

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View our Full Bios

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