BLACKMONT

CAPITAL™

FIXED INCOME

The cyclical rally in bonds continued in November as witness the fall in US ten year Treasurys by 13 basis points to a new cyclical low of 4.44%. The rally overcame ongoing tough rhetoric from a number of Federal Reserve officials regarding their concerns re the stubbornness of inflationary pressures. Yields are now depressed to the point where further price gains are likely to be minimal until easing begins. The next FOMC meeting is on December 12 and 13 and the market is not expecting the Fed to change its stance. At the same time, much of the recent economic data are putting the “soft landing” outlook in jeopardy and there are now clearer signs that inflation is beginning to ebb.

There remain investors who find the bond market a tad on the dull side. To counter that ill-held notion, at the beginning of this year, the Canada 5.75% due June 1, 2033 bond was trading at $ 128.15 to yield 4.04%. By June 28, this bond had fallen by almost **12 points** to $ 116.58 to yield 4.66%. Since then, this bond has regained all of that loss plus a little more, trading at $ 128.73 to yield 3.98%. That is a 28 point swing!

OUTLOOK

We are in a bull market in bonds that should carry yields another 40 basis points lower although progress could be gradual from this stage until the Central Banks signal ease.

The strong possibility exists that the US bond market will outperform the Canadian market significantly. At present, the yield spread at the 10 year maturity is minus 56 basis points, slightly narrower than in recent months. Both the step up in outflows of funds from Canada seeking higher yields plus the possible elimination of our inflation advantage should contribute to the narrowing, if not the elimination, of this negative yield spread.

STRATEGY

Thus, we counsel investors to consider investing a portion of their fixed income portfolios in US bonds. There are many “Yankee” issues to consider; these are bonds issued by Canadian borrowers in US dollars. We maintain representative offerings on these bonds plus other US Government and corporate bonds on BondOne. We are also available to discuss individual securities and situations.

Overall, we continue to recommend extending duration or maintaining a long duration portfolio if already in place.