

Where can you hide in the bond markets?

One of the questions we often get asked is, where do we hide in bond markets? It's a very fair question.

Especially in 2022, capital markets have been unprecedented. We've seen negative returns across the board for all asset classes, including bonds.

Canadian bonds, on average, have a return of about negative 10%. Long bonds are returning close to negative 20%. The key thing is there are opportunities emerging in the bond market.

Just to give a little bit of historical context, over the last two years, it's only been two years, but from a bond market perspective, it's a very long time, especially with the volatility.

We've seen 10-year yields move from 50 basis points to almost 3% in a span of 20 months, 24 months. We've seen yields in all corporates move from 160 basis points to 450 basis points. So that means there are opportunities evolving in the bond market.

How we as a team look at it is we see that at this present time, opportunities in the corporate bond market. To put it into context, five-year senior bank paper is yielding 4.5% versus, if you look at the bank dividend, it's getting you close to 4%.

That's just to put income into perspective, a five-year senior bank paper, which is a corporate bond, yielding 4.5, there is opportunities at this time.

Couple of emerging trends we have seen. The first four months of the year, we've seen a breakdown in correlation between risk assets and bond markets. We've also seen negative returns in the first four months of the year in bond markets.

Going forward, the positive from a bond market perspective is the correlation between risk markets and bond markets are coming back to historical levels.

So at this stage, to answer the question, where do we see we can hide in the bond markets, we would say the corporate bond market and universe at this stage offers better risk-return potential.

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