



Fixed Income Market Update

Monthly Snapshot



At a Glance

1. Canadian bonds posted a loss in October, as yields increased.
2. The Canadian yield curve shifted up in the month, with long-term yields increasing more than short-term yields.
3. The economy picked up some steam with strong GDP and employment numbers both north and south of the border; however, signs of slowing growth persist.

TD Asset Management

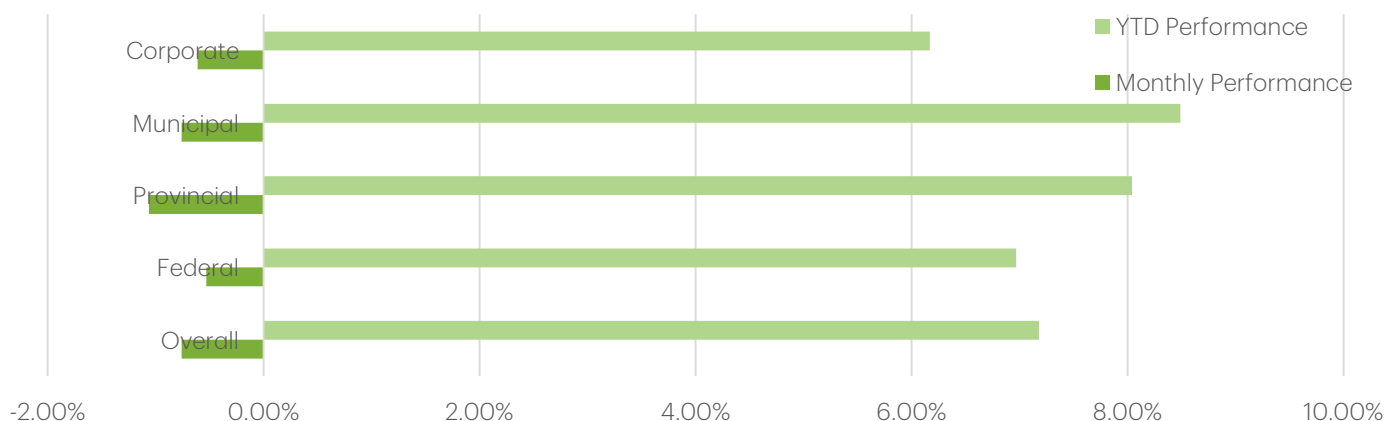
At TD Asset Management Inc., we continue to see value across the credit spectrum given the expectation that central banks will keep policy rates extremely accommodative for some time.

Our teams continue to see relative value opportunities in certain market segments, tactically adjusting portfolio exposures to credit quality buckets to reduce exposure to higher quality pockets of credit which have become expensive.

Canadian Fixed Income Performance

- Canadian bonds, as represented by the FTSE Canada Universe Bond Index, returned -0.76% in October and 7.18% year-to-date. Within the Index, the corporate sector returned -0.61%, outperforming government bonds, which returned -0.81%. Yields increased over the month, driving bond prices lower.
- Among corporate issues, Financial and Securitization bonds were the strongest performers
- in October, while Energy bonds trailed the group. AAA/AA-rated bonds led the group, returning -0.01%, followed by A-rated and BBB-rated bonds, which returned -0.68% and -0.78% respectively.
- Federal bonds posted the strongest returns in the government sector, returning -0.53%.
- Short-term bonds outperformed mid- and long-term bonds.

FTSE Canada Universe Bond Index



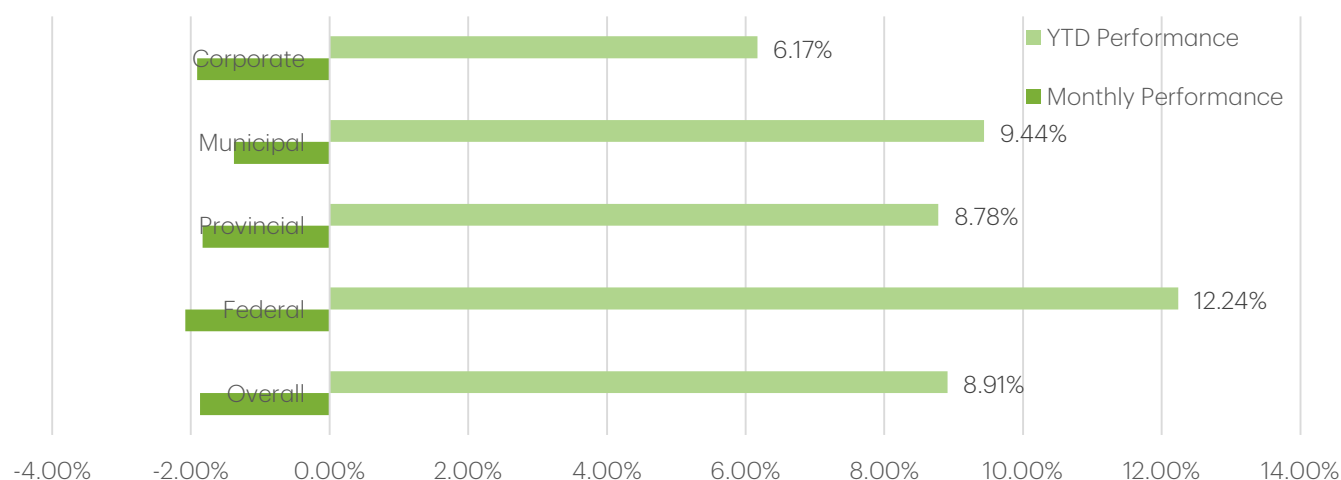
Source: FTSE Russel® Debt Market Indices.
As of October 30, 2020.

| Sectors | Sector | Duration (Years) | Yield | Index Weight |
|---------|------------|------------------|-------|--------------|
| | Overall | 8.33 | 1.31% | - |
| | Federal | 6.45 | 0.57% | 34.28% |
| | Provincial | 10.95 | 1.51% | 37.30% |
| | Municipal | 9.82 | 1.55% | 2.13% |
| | Corporate | 6.94 | 1.96% | 26.29% |

Source: FTSE Russel® Debt Market Indices.
As of October 30, 2020.

Bonds

FTSE Canada Long-Term Bond Index



Source: FTSE Russel® Debt Market Indices.
As of October 30, 2020.

Sectors

| Sector | Duration (Years) | Yield | Index Weight |
|------------|------------------|-------|--------------|
| Overall | 16.10 | 2.17% | - |
| Federal | 17.62 | 1.14% | 17.73% |
| Provincial | 16.55 | 2.10% | 51.48% |
| Municipal | 15.12 | 2.25% | 2.93% |
| Corporate | 13.92 | 3.11% | 22.84% |

Source: FTSE Russel® Debt Market Indices.
As of October 30, 2020.

Key Rates

| Key Rates | Rates |
|---------------------|-------|
| Overnight | 0.25% |
| Prime | 2.45% |
| 3 month CDOR | 0.49% |
| 3 month LIBOR (USD) | 0.22% |
| Canada 10YR Bond | 0.66% |
| U.S. 10YR Treasury | 0.87% |

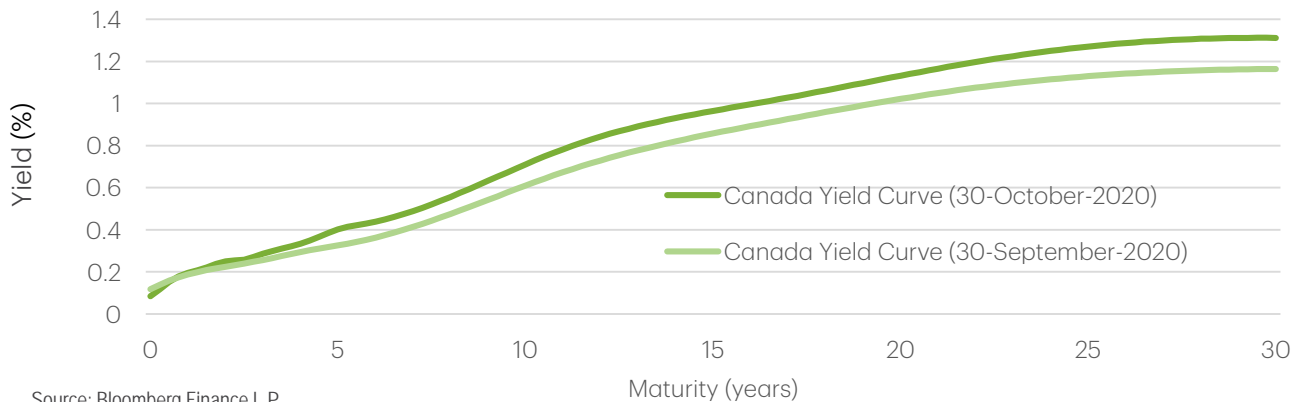
Source: FTSE Russel® Debt Market Indices.
As of October 30, 2020.

Yields and Interest Rates

- The yield curve shifted up in October, with long-term yields increasing more than short-term yields. Month-over-month, the Canadian 1-year yield increased slightly by 0.8 bps and the 2-year yield rose by 2.6 bps. The Canadian 30-year yield

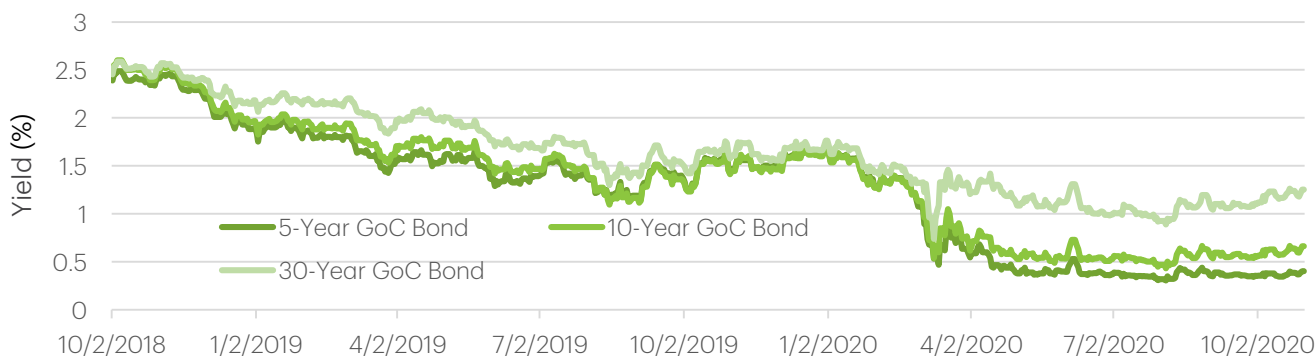
increased by 15.8 bps. The difference in yield between a 2-year and 30-year Government of Canada bond was 106.1 bps, 12.2 bps higher than the previous month.

Canadian Yield Curve



Source: Bloomberg Finance L.P.
As of October 30, 2020.

Government of Canada Yield Trends



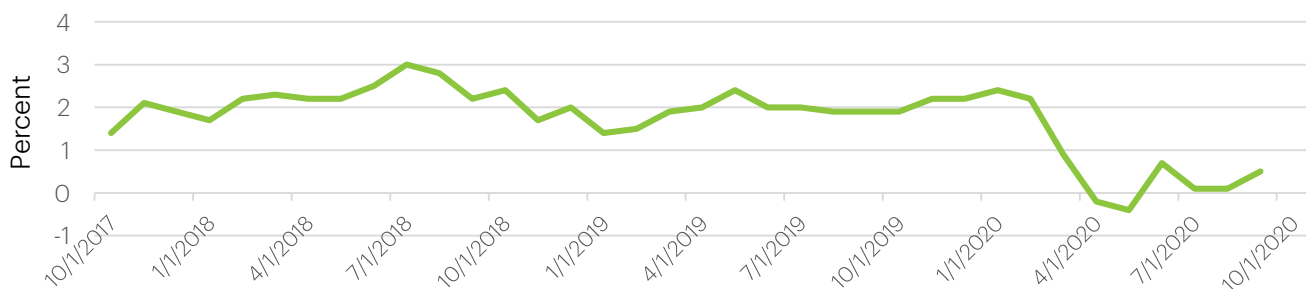
Source: Bloomberg Finance L.P.
As of October 30, 2020.

Inflation

- Canadian consumer price inflation rose in September to 0.5% (YoY), up from August and slightly above expectations. On a month-on-month basis, the biggest movers were transportation, which rose 0.5%, and shelter which rose 0.3%. Clothing and

footwear prices saw the biggest drop, falling 2.8%. Even with massive bond purchases and a surge in money supply growth, inflation is well under target and showing few signs of breaking significantly higher.

Total Consumer Price Index

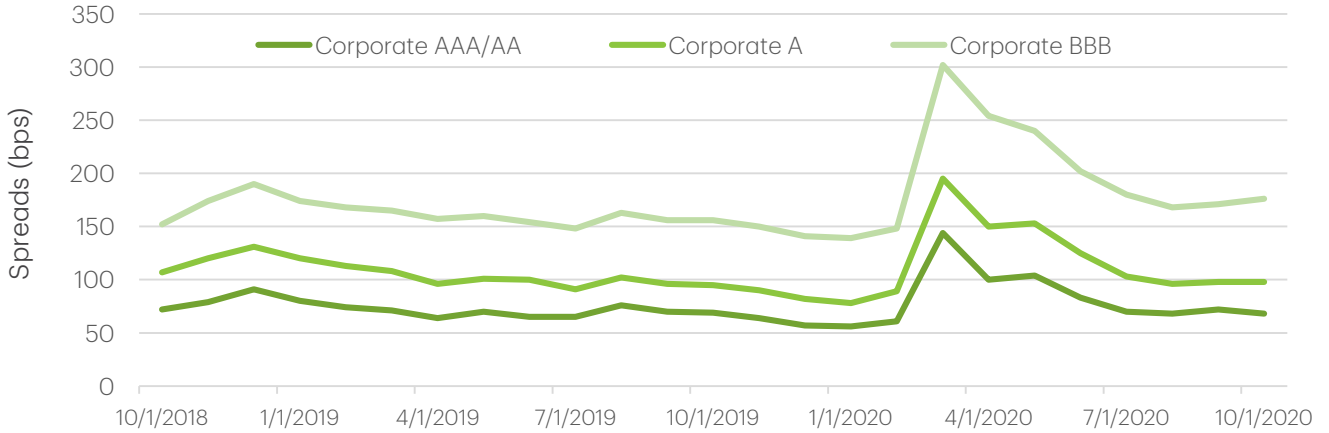


Source: Bloomberg Finance L.P.
As of October 30, 2020.

Sector Spreads

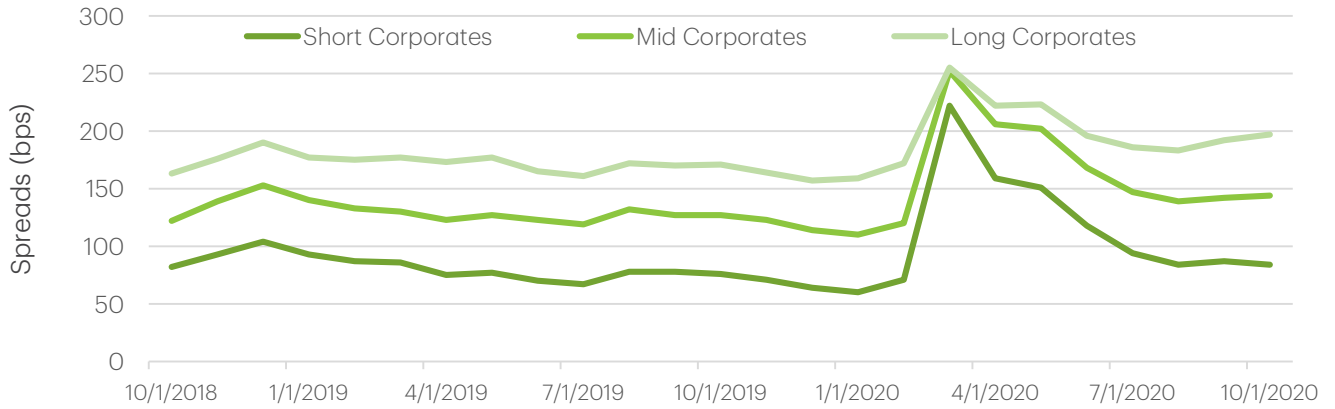
- Investment grade bond spreads are now approaching the tightest levels seen since the late-March sell-off, with corporate credit tightening in October. This comes as economic data continues to provide a supportive assessment of the economic recovery.

Canadian Corporate Spreads



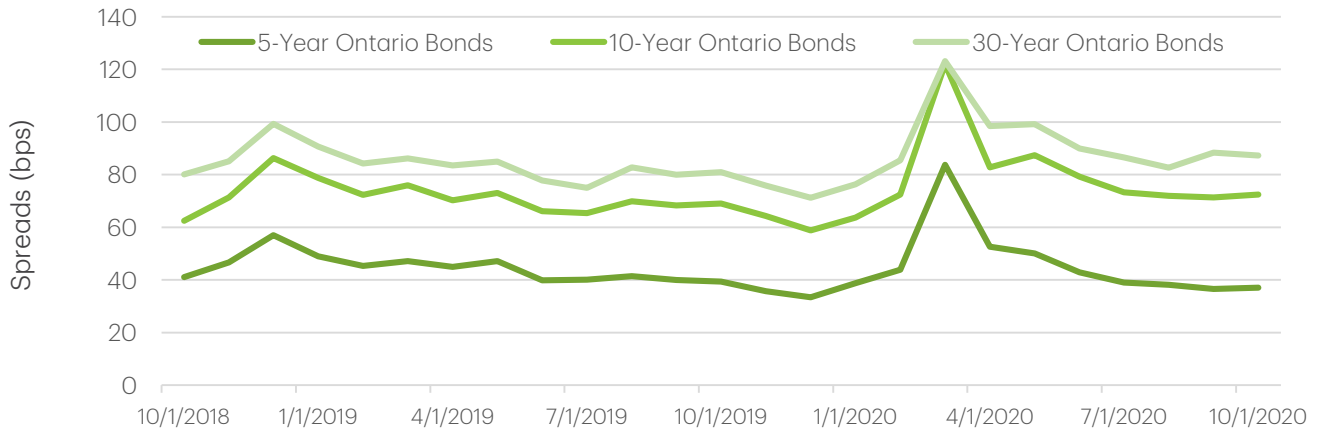
Source: Bloomberg Finance L.P.
As of October 30, 2020.

Mid-Term Corporate Credit Quality Spreads



Source: Bloomberg Finance L.P.
As of October 30, 2020.

Provincial Spreads



Source: Bloomberg Finance L.P.
As of October 30, 2020.

Economic Overview

- Risk-off sentiment prevailed in the month of October as virus caseloads increased leading to further restrictions in Canada's largest cities. Oil prices continued to tumble as demand issues remain and stockpiles increased. On the economic front, the economy posted large widespread job gains in September, and the jobless rate fell to 9%. The government also announced that Canada's economy grew in August and September, faster than expected. However, it appears that momentum is slowing. Retail sales disappointed slightly in August, suggesting that the demand for goods is slowing after the strict pandemic induced lockdowns. High frequency data are also pointing to decelerating spending behaviour. In its October update, the Bank of Canada reinforced its commitment to keeping rates at historically low levels over the next few years. It also pledged to keep buying bonds to suppress long-term borrowing costs and inject stimulus into the markets.
- In the U.S., earnings news was relatively positive over the month; however, this was offset by uncertainty around the election, vaccine trials and increasing COVID-19 cases. Investors were weighing the possibility of a clean sweep for the Democrats which could result in a quicker and bigger fiscal stimulus package, with the negative possibility of higher corporate tax rates and increased regulation. The U.S. is showing some signs of improvement but the pace of recovery seems to be slowing. The unemployment rate fell yet again to 7.9% in September, however, the increase in jobs fell short of expectations. The recent surge in coronavirus cases is threatening economic growth. On a bright spot, retail sales rose in September and GDP grew at a record-breaking rate on an annualized basis over the third quarter.

Glossary of terms

Bond Spreads: The difference between yields of bonds with similar quality and different maturities, or of different quality and the same maturity. Typically, the higher the spread, the higher the risk.

bps: Basis points. One basis point is equal to 0.01%.

CDOR: Canadian Dollar Offered Rate, is the recognized financial benchmark in Canada for bankers' acceptances (BAs) with a term of maturity of one year or less. It is the rate at which banks are willing to lend money to companies.

Corporate Bonds: Debt security that is issued by a company in order to raise capital.

CPI: Consumer Price Index, an indicator that measures the changes in prices of a basket of consumer goods and services.

Credit quality/rating: Refers to a bond's credit worthiness or risk of default.

Duration: A method of estimating a bond's price volatility, expressed in terms of the weighted average term-to-maturity of all the bond's remaining cash flows—interest and principal.

GDP: Gross Domestic Product, the monetary value of all finished goods and services made within a country during a specific period.

LIBOR: London Interbank Offered Rate, the interest rate at which banks offer to lend money to one another in the international interbank market for short-term loans.

MoM: Month over month.

Provincial Bonds: Debt security issued and backed by provincial governments.

Yield Curve: Graphical representation of the relationship between the yields and maturities of different bonds of similar quality, currency denomination and risk (usually government bonds).

YoY: Year over year.

YTD: Year to date.

Markets



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