



FTSE Russell

# Canadian Fixed Income Insight Report

Presented to you by BMO Global Asset Management

June 2022

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**Canadian Fixed Income Summary (CAD, TR) as of May 31, 2022**

**BMO ETF Statistics\***

Fund	Ticker	YTM	Term (yrs)	Duration	Credit Ratings (%)		
					AAA/AA	A	BBB
BMO Aggregate Bond Index ETF	ZAG	3.53	10.35	7.54	72.5	16.2	11.3
BMO Discount Bond Index ETF	ZDB	3.58	9.87	7.55	70.8	18.8	10.4
BMO Short Federal Bond Index ETF	ZFS	2.73	2.69	2.59	100.0	0.0	0.0
BMO Mid Federal Bond Index ETF	ZFM	3.03	8.12	7.43	100.0	0.0	0.0
BMO Long Federal Bond Index ETF	ZFL	2.99	25.33	17.50	100.0	0.0	0.0
BMO Short Provincial Bond Index ETF	ZPS	3.01	3.22	3.02	91.2	8.8	0.0
BMO Mid Provincial Bond Index ETF	ZMP	3.49	7.62	6.77	91.3	8.7	0.0
BMO Long Provincial Bond Index ETF	ZPL	3.87	23.33	15.14	90.4	9.6	0.0
BMO Short Corporate Bond Index ETF	ZCS	4.07	2.98	2.78	13.7	49.9	36.4
BMO Mid Corporate Bond Index ETF	ZCM	4.65	6.89	5.95	7.9	28.4	63.7
BMO Long Corporate Bond Index ETF	ZLC	4.94	21.08	12.34	0.9	60.0	39.1
BMO Government Bond Index ETF	ZGB	3.20	10.93	8.12	95.4	4.6	0.0
BMO Corporate Bond Index ETF	ZCB	4.37	8.34	5.92	7.8	47.2	45.0
BMO Short-Term Bond Index ETF	ZSB	3.35	2.88	2.73	68.7	19.6	11.6
BMO Real Return Bond Index ETF	ZRR	2.90	17.41	15.00	100.0	0.0	0.0
BMO Canadian MBS Index ETF	ZMBS	2.93	2.95	2.32	100.0	0.0	0.0
BMO Ultra Short-Term Bond ETF	ZST	2.32	0.53	0.52	76.0	17.4	6.7
BMO BBB Corporate Bond Index ETF	ZBBB	4.44	4.60	4.09	0.0	0.0	100.0
BMO High Quality Corporate Bond Index ETF	ZQB	4.02	3.63	3.34	19.0	81.0	0.0

\*Statistics are based on ETF.

**BMO ETF's Portfolio Statistics\*\***

**Total Return (12M, %)**

	Short	Mid	Long	Overall
Federal	-4.80	-9.45	-12.69	-8.02
Provincial	-4.02	-8.28	-14.08	-10.27
Corporate	-3.91	-9.09	-13.97	-7.07
Overall	<b>-4.23</b>	<b>-8.85</b>	<b>-13.73</b>	<b>-8.55</b>

**Returns Volatility (12M, %)**

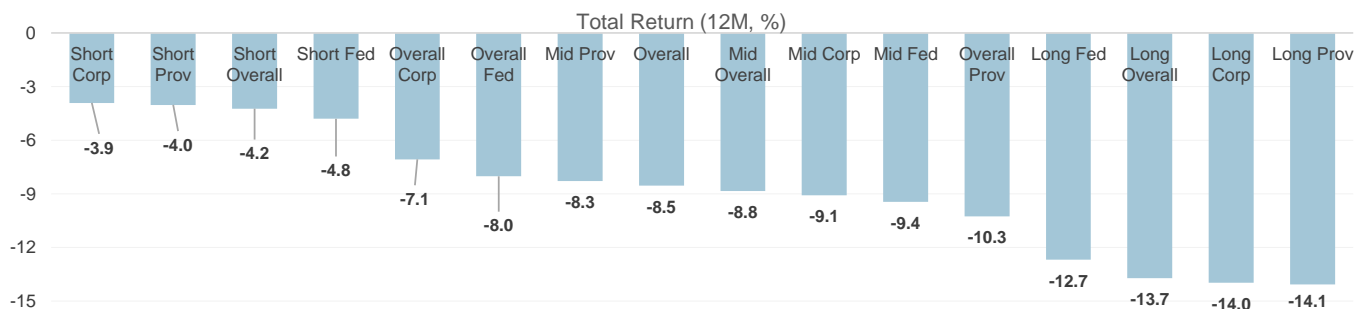
	Short	Mid	Long	Overall
Federal	2.24	5.24	10.47	4.98
Provincial	2.39	6.16	12.98	8.49
Corporate	2.22	6.82	14.67	5.28
Overall	<b>2.25</b>	<b>6.16</b>	<b>12.58</b>	<b>6.37</b>

**Change in Yield (12M, bps)**

	Short	Mid	Long	Overall
Federal	289	229	138	228
Provincial	224	178	122	157
Corporate	221	160	103	189
Overall	<b>247</b>	<b>178</b>	<b>119</b>	<b>186</b>

**Change in Spread vs Canada (12M, bps)**

	Short	Mid	Long	Overall
Federal	0	0	0	0
Provincial	2	3	12	35
Corporate	9	15	22	24
Overall	<b>1</b>	<b>5</b>	<b>14</b>	<b>20</b>



\*\*Heatmap Copy! from 2021-05-31 to 2022-05-31

# Market Maps

## Fixed Income Insight Report



June 2022

### Long Canadian real return bonds showed resilience amid sell-off in May

Canadian conventional bonds made modest gains or losses in May, reversing months of sharp declines. Tightening financial conditions globally and recession concerns have spurred investors to reassess their interest rate and inflation expectations as most central banks prioritized controlling inflation over economic growth.

#### Canadian govts and credit – Long munis hit by quantitative tightening

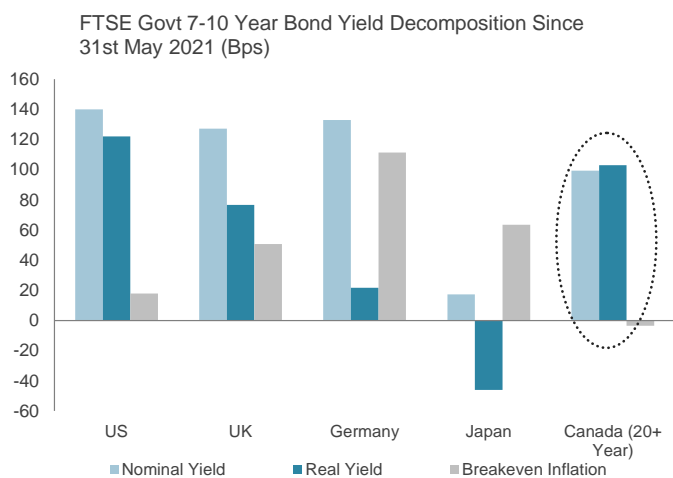
Long municipal spreads have widened since Q4 2021, when the BoC began withdrawing its support, unlike short-dated equivalents, which have been relatively stable. (pages 4-5)

**Appendix** – Historical bond yields, glossary.

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Chart 1: Breakevens are pushing nominal yields upward in Germany and Japan, while real yields are doing so in the US, UK and Canada.

Chart 2: Breakeven inflation eased in May as investors reappraised the impact of tightening financial conditions.



Source: FTSE Russell. All data as of May 31, 2022. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indexes. See Appendix for list of indexes used for each market.

# Canadian Governments, Provinces and Municipalities

Chart 1: The Canadian yield curve has flattened to such an extent in May (not seen since 2019) that 10/2s spreads were only 20bp wider, while there was only 10bp separating 10yr and 20yr gov. yields.

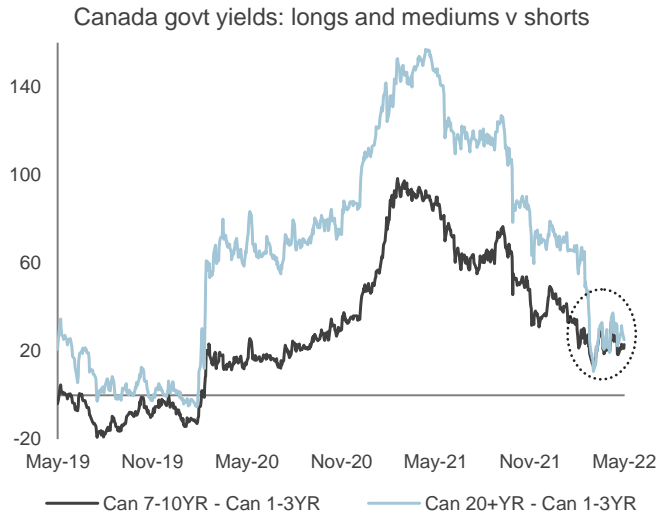


Chart 3: Long-dated real yields have moved firmly into positive territory since April (risen since BoC stopped QE in 2021), pushing nominal yields to their highest levels in the last three years.

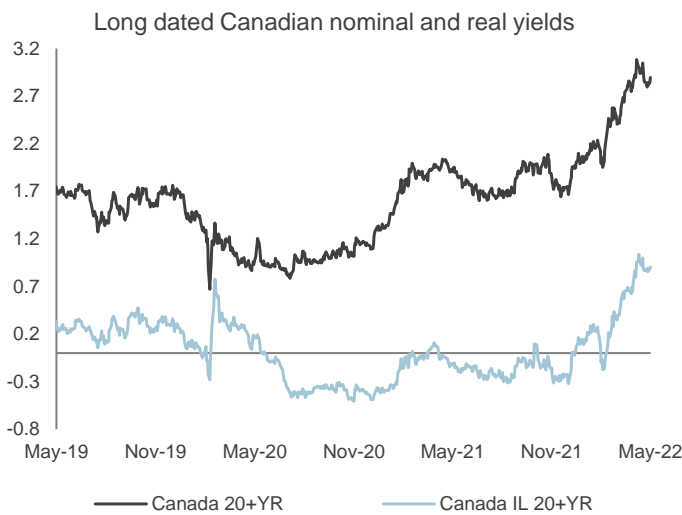


Chart 5: Provincial spreads versus their 7-10-year Canadian government bond equivalents have all converged near 60bp in May.

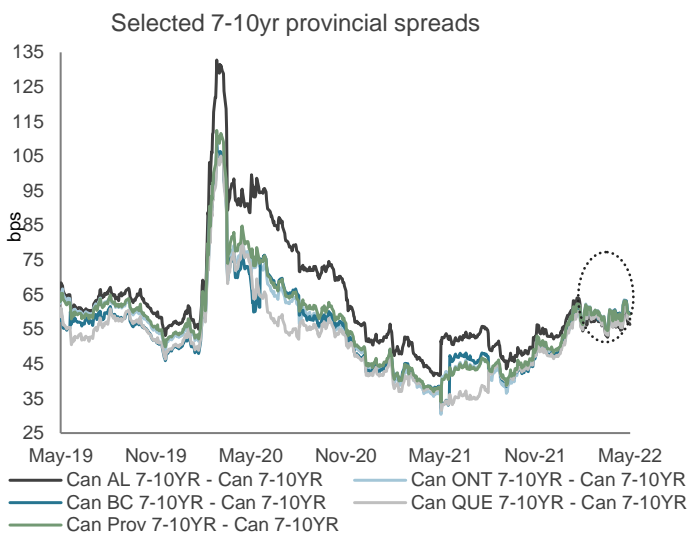


Chart 2: Canadian 7-10-year government bond yields fell in May relative to JGBs, gilts and bunds as markets reviewed their rate expectations, but they stayed relatively flat versus Treasuries.

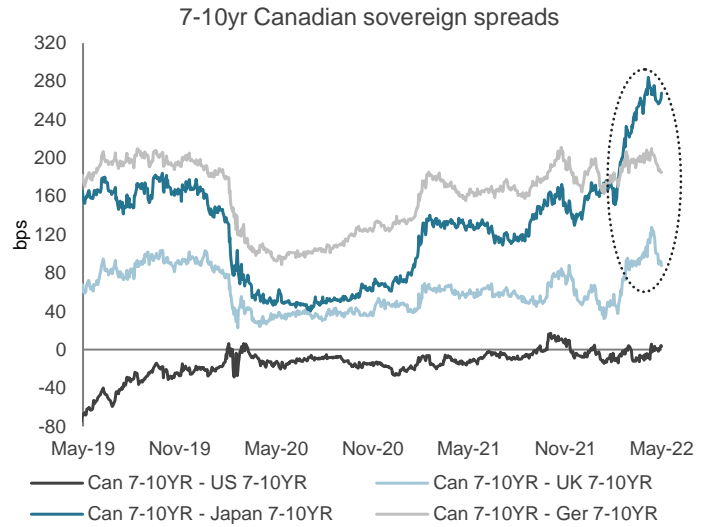


Chart 4: Long-dated breakeven inflation eased in May as the outlook for growth became more subdued; Canadian breakevens decoupled from those of the US and Germany.

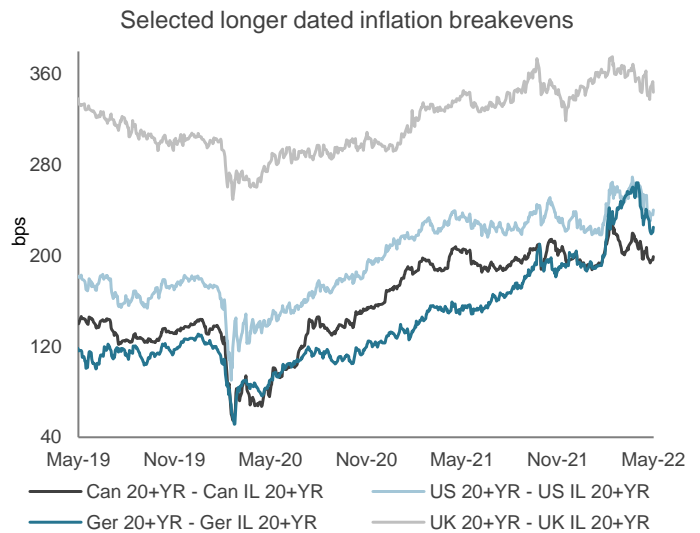
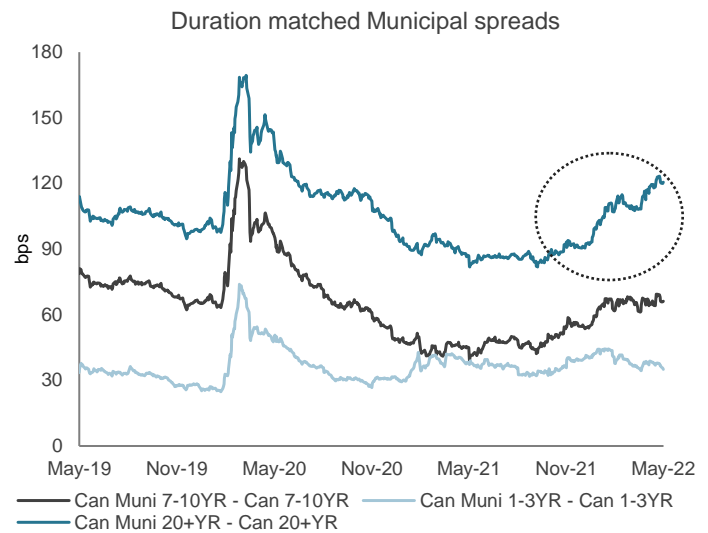


Chart 6: Shorter-dated municipal spreads have remained generally stable since the Covid crisis, unlike those for 20yr maturities, which have continued to widen since BoC implemented QT in Q4 2021.



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# Canadian Corporate Bonds

Chart 1: Renewed risk aversion in May hurt Canadian corporates, which saw yield levels approaching those during the peak of the Covid crisis in March 2020.

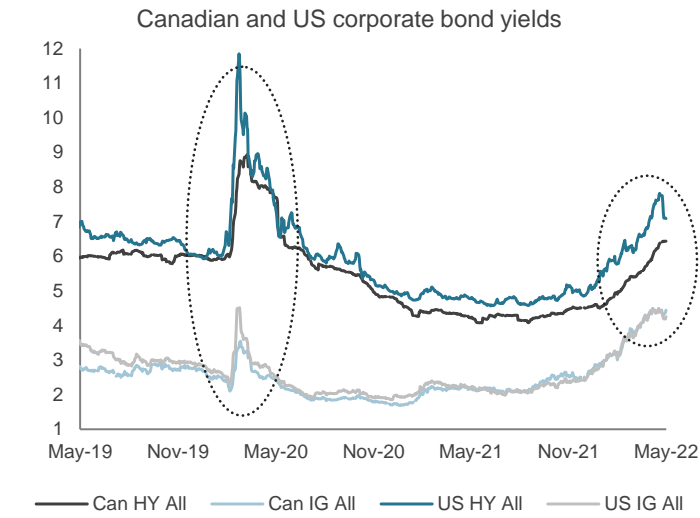


Chart 2: Canadian financials spreads have widened the most since 2021 and are close to those in infrastructure, industrials and real estate. Despite rising oil prices, energy spreads also widened.

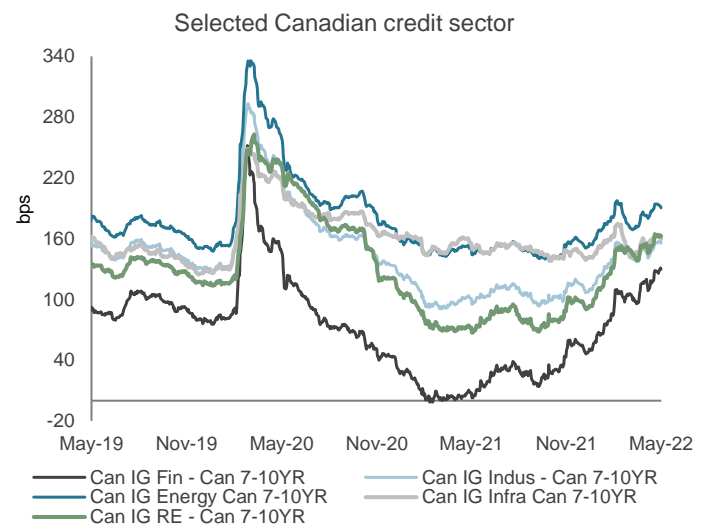


Chart 3: Unlike US high yield credit, Canadian high yield spreads, while spiking up in May, have remained at their lowest levels in the last three years, despite rising rates and quantitative tightening.

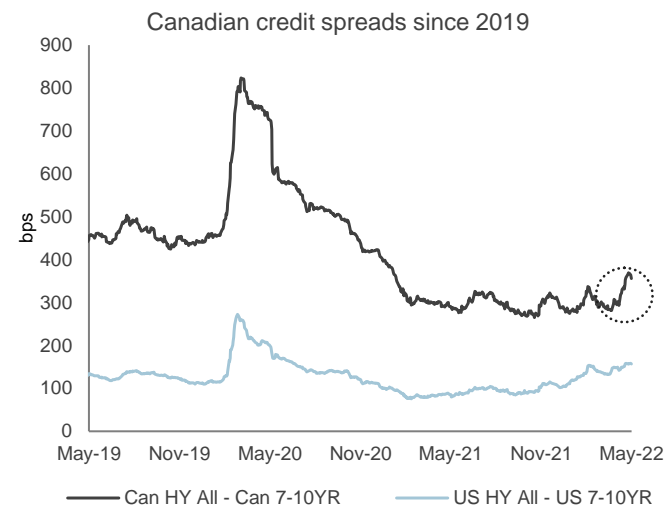


Chart 4: Canadian conventional and corporate bond spreads have widened sharply across the whole credit quality spectrum since January.

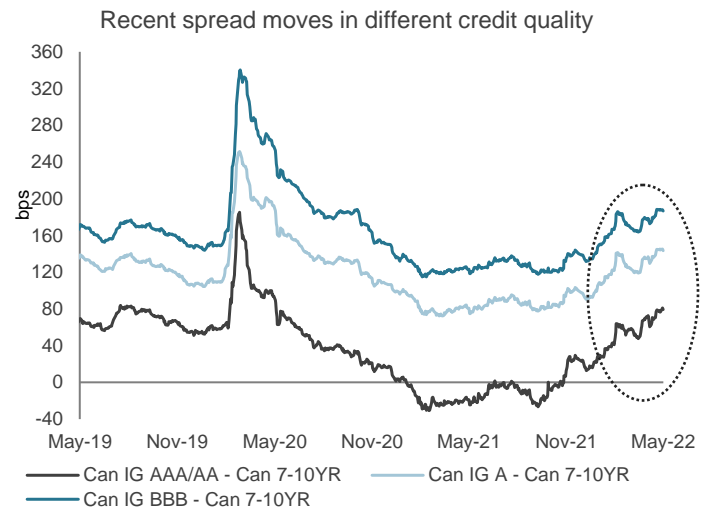


Chart 5: Re-normalized? For the first time in months, BBB-rated corporate spreads are wider than their better quality peers, even if only by a few basis points.

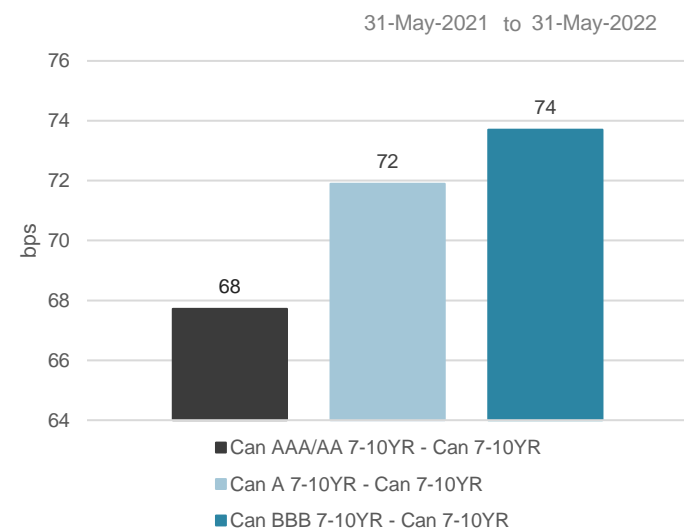
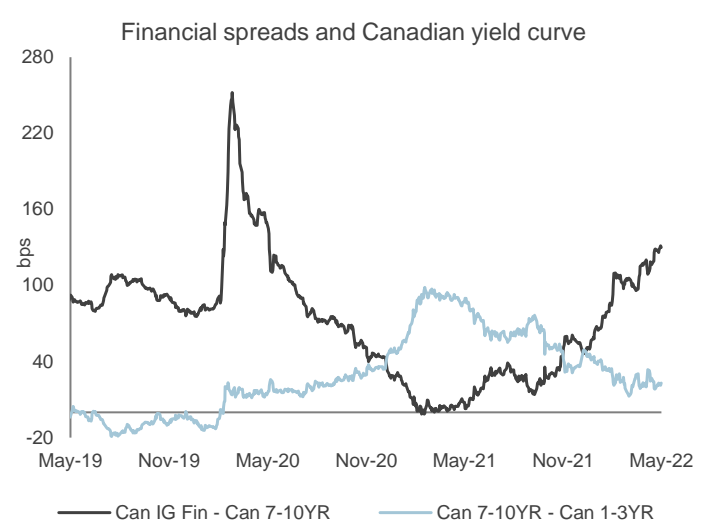


Chart 6: Financial spreads have widened sharply since the Bank of Canada ended quantitative easing in Q4 2021, while the Canadian bond yield curve continued to flatten in May.



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# Appendix – Canadian Historical Bond Yields % as of May 31, 2022

## Canadian Bond Yields

Top 15% Bottom 15%

Green highlight indicates top 15%, red indicates bottom 15%.

		1-3YR	7-10YR	20+YR	All Mat
<b>Canada</b>	Current	2.65	2.88	2.90	
	3M Ago	1.44	1.79	2.12	
	6M Ago	1.08	1.50	1.85	
	12M Ago	0.44	1.31	1.90	
<b>IL</b>	Current			0.91	
	3M Ago			0.07	
	6M Ago			-0.16	
	12M Ago			-0.12	
<b>Provincial</b>	Current	2.94	3.47	3.87	3.55
	3M Ago	1.80	2.35	3.05	2.58
	6M Ago	1.36	1.99	2.66	2.19
	12M Ago	0.70	1.69	2.65	1.98
<b>Ontario</b>	Current	2.94	3.47	3.89	3.51
	3M Ago	1.80	2.35	3.06	2.53
	6M Ago	1.38	1.98	2.66	2.16
	12M Ago	0.69	1.67	2.66	1.88
<b>Quebec</b>	Current	2.95	3.45	3.83	3.57
	3M Ago	1.79	2.34	3.01	2.62
	6M Ago	1.28	1.98	2.60	2.17
	12M Ago	0.67	1.69	2.61	2.02
<b>Alberta</b>	Current	2.97	3.44	3.81	3.51
	3M Ago	1.85	2.34	3.04	2.56
	6M Ago	1.39	2.03	2.74	2.21
	12M Ago	0.71	1.72	2.76	2.04
<b>BC</b>	Current	2.92	3.47	3.83	3.56
	3M Ago	1.78	2.35	3.02	2.58
	6M Ago	1.30	1.97	2.60	2.16
	12M Ago	0.70	1.69	2.57	2.01
<b>Municipal</b>	Current	3.00	3.54	4.10	3.65
	3M Ago	1.85	2.41	3.19	2.63
	6M Ago	1.43	2.05	2.78	2.23
	12M Ago	0.82	1.76	2.77	1.99
<b>Corporate</b>	Current	4.10	4.66	4.94	4.44
	3M Ago	2.57	3.31	3.94	3.13
	6M Ago	1.87	2.72	3.50	2.56
	12M Ago	1.21	2.37	3.56	2.16
<b>High Yield</b>	Current				6.43
	3M Ago				4.93
	6M Ago				4.47
	12M Ago				4.22

		1-5YR	5-10YR	20+YR	All Mat
<b>AAA/AA</b>	Current	3.55	4.08	4.46	3.67
	3M Ago	2.04	2.68	3.57	2.20
	6M Ago	1.43	2.16	3.18	1.63
	12M Ago	0.85	1.84	3.24	1.12
<b>A</b>	Current	4.09	4.38	4.67	4.31
	3M Ago	2.56	2.97	3.66	3.01
	6M Ago	1.86	2.52	3.26	2.48
	12M Ago	1.18	2.09	3.30	2.11
<b>BBB</b>	Current	4.30	4.88	5.37	4.74
	3M Ago	-2.12	-1.01	-0.09	3.45
	6M Ago	-2.39	-1.35	-0.51	2.86
	12M Ago	-2.36	-1.30	-0.18	2.54
<b>Comm</b>	Current	4.71	5.54	4.14	4.79
	3M Ago	3.46	4.62	2.67	3.59
	6M Ago	2.80	4.06	2.04	2.95
	12M Ago	2.42	4.06	1.42	2.62
<b>Energy</b>	Current	4.14	4.93	5.08	4.78
	3M Ago	2.67	3.57	4.07	3.60
	6M Ago	2.04	2.96	3.60	3.05
	12M Ago	1.42	2.61	3.60	2.81
<b>Financial</b>	Current	4.09	4.49	4.91	4.17
	3M Ago	2.50	3.06	3.77	2.63
	6M Ago	1.78	2.56	3.37	2.00
	12M Ago	1.09	2.12	3.97	1.39
<b>Industrial</b>	Current	4.03	4.49	5.11	4.43
	3M Ago	2.66	3.13	4.10	3.18
	6M Ago	2.01	2.58	3.66	2.60
	12M Ago	1.43	2.22	3.79	2.32
<b>Infrastructure</b>	Current	3.60	4.29	4.67	4.47
	3M Ago	2.27	2.93	3.68	3.41
	6M Ago	1.74	2.48	3.29	2.99
	12M Ago	1.12	2.18	3.31	2.86
<b>Securitization</b>	Current	3.76			3.76
	3M Ago	2.24			2.24
	6M Ago	1.64			1.64
	12M Ago	0.99			0.99

Indexes used: FTSE Canada Non-Agency Bond Index (Short, Mid, Long), FTSE Canada RRB Canada Index, FTSE Canada Corporate Bond Index (Short, Mid, Long, AAA/AA, A, BBB), FTSE Canada Provincial Bond Index, FTSE Canada High Yield Bond Index.

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## Appendix – Glossary

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### **Bond markets are based on the following indexes:**

FTSE Canada Universe Bond Index for all Canadian government and corporate bond markets\*

FTSE Canada High Yield Bond Index for the Canadian high yield market

FTSE Canada RRB Canada Index for the Canadian inflation-linked bond market

FTSE World Government Bond Index (WGBI) for all global government bond markets

FTSE World Inflation-Linked Securities Index (WorldILSI) for all global inflation-linked bond markets

FTSE US Broad Investment-Grade Bond Index (USBIG®) for the US corporate bond market

FTSE US High-Yield Market Index for the US high yield bond market

FTSE Euro Broad Investment-Grade Bond Index (EuroBIG®) for the Euro-denominated corporate bond market

FTSE European High-Yield Market Index for the European high yield market

FTSE Chinese Government and Policy Bank Bond Index (CNGPBI) for the Chinese government bond market

FTSE Emerging Markets Inflation-Linked Securities Index (EMILSI) for the emerging markets inflation-linked bond market

FTSE Emerging Markets Broad Bond Index (EMUSDBBI) for the emerging markets corporate bond market

### **\* FTSE Canada Bond Indexes**

1-3YR = Short Term Bond Indexes

7-10YR = Mid Term Bond Indexes

20+ YR = Long Term Bond Indexes

### **List of Abbreviations used in charts:**

IL = Inflation linked bonds

IG = Investment grade bonds

HY = High yield bonds

BPS = Basis points

EM = Emerging market

LC = Local currency



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