



FTSE Russell

Canadian Fixed Income Insight Report

Presented to you by BMO Global Asset Management

April 2024

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Canadian Fixed Income Summary (CAD, TR) as of March 28, 2024

BMO ETF Statistics*

Fund	Ticker	YTM	Term (yrs)	Duration	Credit Ratings (%)			
					AAA/AA	A	BBB	BB
BMO Aggregate Bond Index ETF	ZAG	4.20	9.77	7.11	73.4	15.3	11.2	0.0
BMO Discount Bond Index ETF	ZDB	4.13	9.27	7.09	73.2	17.4	9.4	0.0
BMO Short Federal Bond Index ETF	ZFS	4.00	2.70	2.54	100.0	0.0	0.0	0.0
BMO Mid Federal Bond Index ETF	ZFM	3.56	7.74	6.86	100.0	0.0	0.0	0.0
BMO Long Federal Bond Index ETF	ZFL	3.42	24.45	16.83	100.0	0.0	0.0	0.0
BMO Short Provincial Bond Index ETF	ZPS	4.14	2.78	2.60	87.7	12.3	0.0	0.0
BMO Mid Provincial Bond Index ETF	ZMP	3.98	7.27	6.37	91.7	8.3	0.0	0.0
BMO Long Provincial Bond Index ETF	ZPL	4.34	22.55	14.57	90.5	9.5	0.0	0.0
BMO Short Corporate Bond Index ETF	ZCS	4.85	2.98	2.73	13.7	48.4	37.9	0.0
BMO Mid Corporate Bond Index ETF	ZCM	4.90	7.17	5.90	3.9	31.5	64.5	0.0
BMO Long Corporate Bond Index ETF	ZLC	5.03	20.59	12.37	1.8	58.9	39.3	0.0
BMO Government Bond Index ETF	ZGB	3.94	10.25	7.60	95.7	4.3	0.0	0.0
BMO Corporate Bond Index ETF	ZCB	4.88	8.21	5.70	7.6	48.2	44.2	0.0
BMO Short-Term Bond Index ETF	ZSB	4.29	2.80	2.61	68.7	17.8	13.6	0.0
BMO Real Return Bond Index ETF	ZRR	1.65	15.72	13.64	100.0	0.0	0.0	0.0
BMO Canadian MBS Index ETF	ZMBS	4.57	2.37	1.87	100.0	0.0	0.0	0.0
BMO Ultra Short-Term Bond ETF	ZST	5.35	0.35	0.34	12.8	57.5	29.6	0.0
BMO BBB Corporate Bond Index ETF	ZBBB	4.96	4.50	3.91	0.0	0.0	100.0	0.0
BMO High Quality Corporate Bond Index	ZQB	4.62	3.49	3.15	20.9	79.1	0.0	0.0
BMO Corporate Discount Bond ETF	ZCDB	4.65	3.74	3.46	6.1	55.8	38.2	0.0
BMO Short-Term Discount Bond ETF	ZSDB	4.28	2.71	2.61	53.8	31.9	14.2	0.0
BMO Canadian Bank Income Index ETF	ZBI	5.70	2.29	2.08	44.1	24.8	31.1	0.0
BMO US Aggregate Bond Index ETF	ZUAG	4.82	8.75	6.26	76.0	12.0	12.0	0.0
BMO US TIPS Index ETF	TIPS	4.61	7.34	6.78	100.0	0.0	0.0	0.0

*Statistics are based on ETF.

BMO ETF's Portfolio Statistics**

Total Return (12M, %)

	Short	Mid	Long	Overall
Federal	2.36	-0.52	-3.25	0.80
Provincial	2.65	1.22	0.23	1.10
Corporate	5.54	5.20	5.66	5.50
Overall	3.48	1.05	0.81	2.10

Returns Volatility (12M, %)

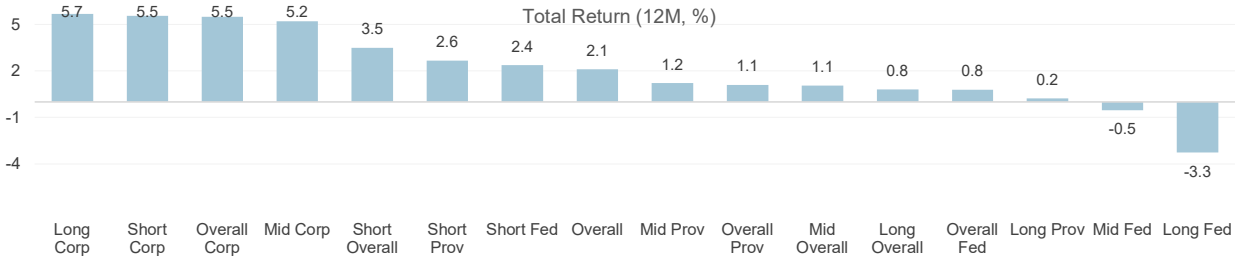
	Short	Mid	Long	Overall
Federal	-28.98	-24.73	-13.57	-21.39
Provincial	-27.72	-21.93	-12.47	-16.09
Corporate	-24.59	-22.44	-11.60	-18.21
Overall	-26.80	-22.94	-12.29	-18.16

Change in Yield (12M, bps)

	Short	Mid	Long	Overall
Federal	41	55	33	44
Provincial	42	46	26	36
Corporate	-13	3	-1	-7
Overall	23	40	22	26

Change in Spread vs Canada (12M, bps)

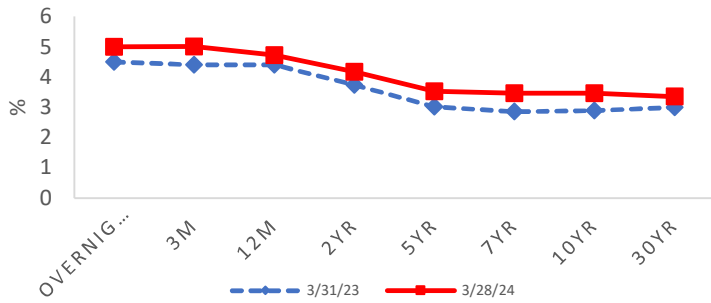
	Short	Mid	Long	Overall
Federal	0	0	0	0
Provincial	1	-9	-7	-8
Corporate	-54	-52	-34	-51
Overall	-19	-15	-11	-17



**Heatmap Copy! from 2023-03-31 to 2024-03-28

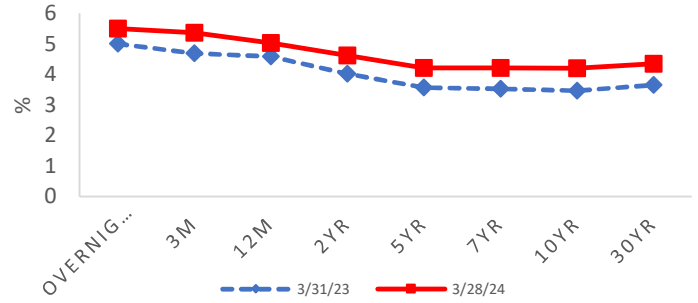
Fixed Income Market Overview

YIELD CURVE - CANADA



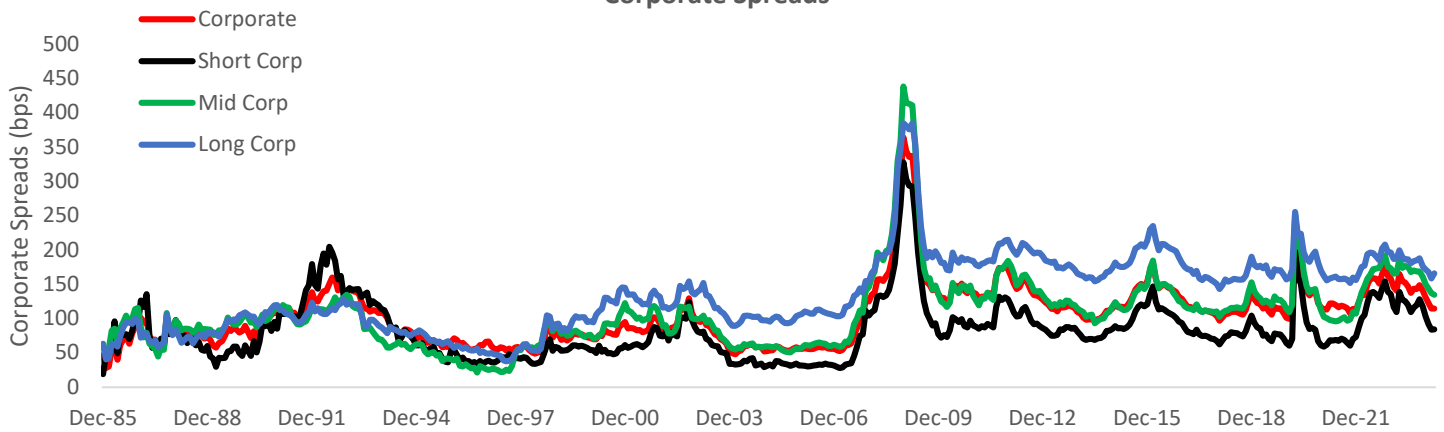
Source: BMOGAM, Bloomberg

YIELD CURVE - US



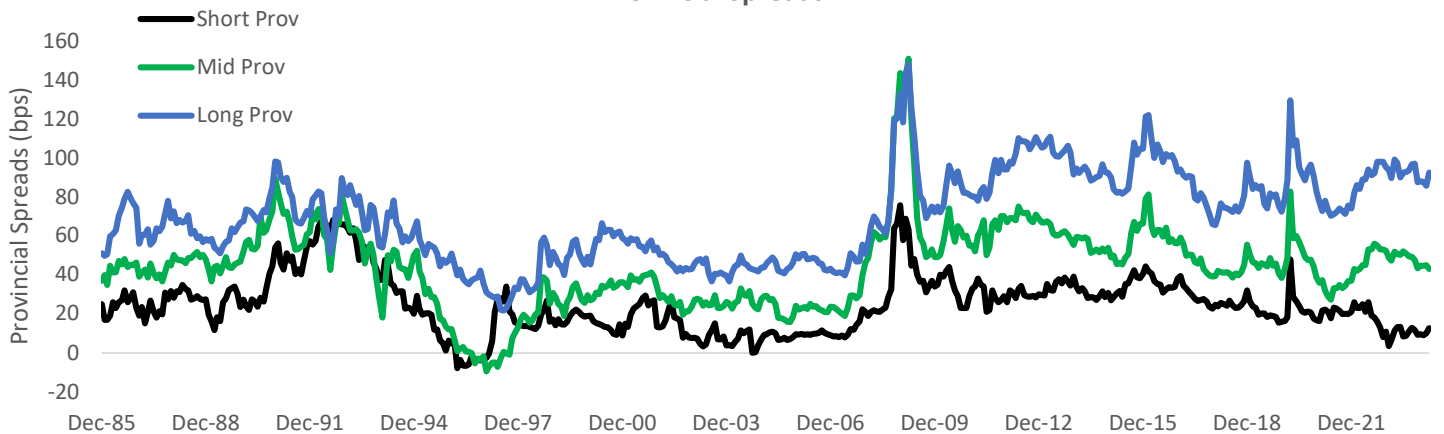
Source: BMOGAM, Bloomberg

Corporate Spreads



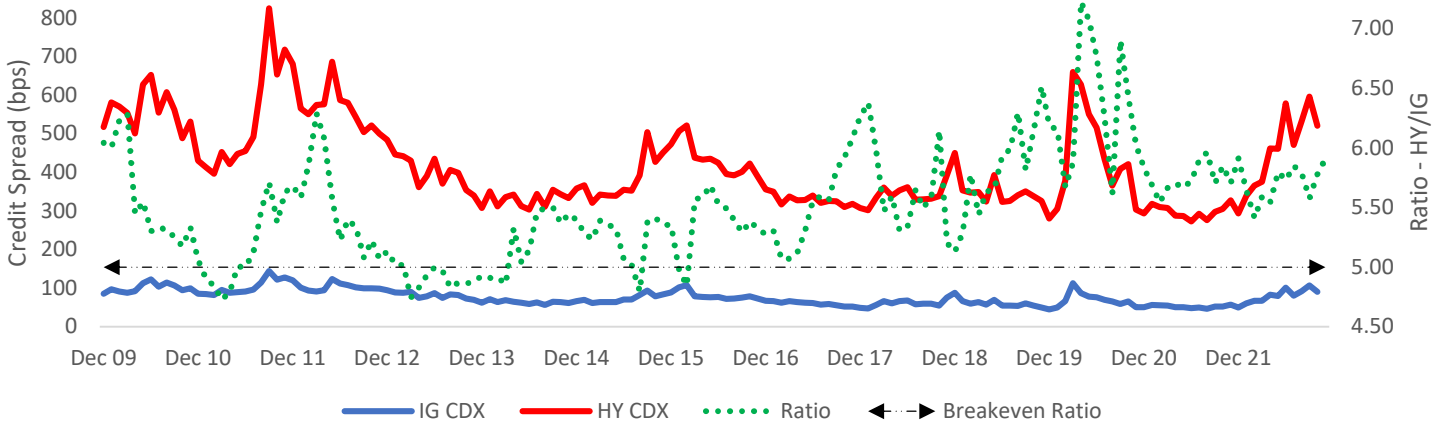
Source: BMOGAM, FTSE

Provincial Spreads



Source: BMOGAM, FTSE

**US Credit Spreads
IG and HY CDX**



Source: BMOGAM, Bloomberg

		Government	Corporate	US High Yield	US Long Treasury	TSX	S&P500	MSCI EAFE
Correlation		ZGB	ZCB	ZHY	ZTL.F	ZCN	ZUE	ZDM
Government	ZGB	1	0.992	0.443	0.845	0.234	0.189	0.075
Corporate	ZCB	0.992	1	0.458	0.831	0.236	0.185	0.095
US High Yield	ZHY	0.443	0.458	1	0.413	0.671	0.649	0.647
US Long Treasury	ZTL.F	0.845	0.831	0.413	1	0.172	0.135	0.067
TSX	ZCN	0.234	0.236	0.671	0.172	1	0.809	0.65
S&P500	ZUE	0.189	0.185	0.649	0.135	0.809	1	0.504
MSCI EAFE	ZDM	0.075	0.095	0.647	0.067	0.65	0.504	1

		Government	Corporate	US High Yield	US Long Treasury	TSX	S&P500	MSCI EAFE
1 Month Char		ZGB	ZCB	ZHY	ZTL.F	ZCN	ZUE	ZDM
Government	ZGB	▲ +0.00	▲ +0.00	▼ -0.00	▲ +0.00	▲ +0.02	▲ +0.02	▲ +0.03
Corporate	ZCB	▲ +0.00	▲ +0.00	▼ -0.01	▼ -0.00	▲ +0.02	▲ +0.02	▲ +0.02
US High Yield	ZHY	▼ -0.00	▼ -0.01	▲ +0.00	▲ +0.00	▲ +0.01	▲ +0.01	▲ +0.02
US Long Treasury	ZTL.F	▲ +0.00	▼ -0.00	▲ +0.00	▲ +0.00	▲ +0.02	▲ +0.02	▲ +0.03
TSX	ZCN	▲ +0.02	▲ +0.02	▲ +0.01	▲ +0.02	▲ +0.00	▲ +0.01	▲ +0.03
S&P500	ZUE	▲ +0.02	▲ +0.02	▲ +0.01	▲ +0.02	▲ +0.01	▲ +0.00	▼ -0.01
MSCI EAFE	ZDM	▲ +0.03	▲ +0.02	▲ +0.02	▲ +0.03	▲ +0.03	▼ -0.01	▲ +0.00

Source: BMOGAM, Bloomberg

Fixed Income Insights

MONTHLY REPORT – APRIL 2024 | CANADA EDITION

FOR PROFESSIONAL INVESTORS ONLY

Canadian high yield tracks equities higher in Q1, as BoC cautions on easing

Canadian high yield credit tracked equities higher in Q1 as investor risk appetite increased. The Bank of Canada cautioned on early easing, despite lower inflation and some easing in the labour market providing scope to pivot. Long government bonds reacted adversely to the “higher for longer” narrative. Yen weakness eroded JGB returns for Canadian investors.

Canadian govts and credit – Long conventional bonds underperformed most in Q1 as Canadian investors turned to risk assets for returns

Canadian conventional bonds with long maturities were weak after rates stayed unchanged, as the BoC seeks sustainable, lower inflation. Meanwhile, Canadian high yields tracked equities higher, despite the risk of higher defaults in 2024. (pages 6-8)

[Appendix](#) – Historical bond yields, glossary.

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Chart 1: Breakeven inflation edged higher in March, though yield moves were generally modest, outside Europe.

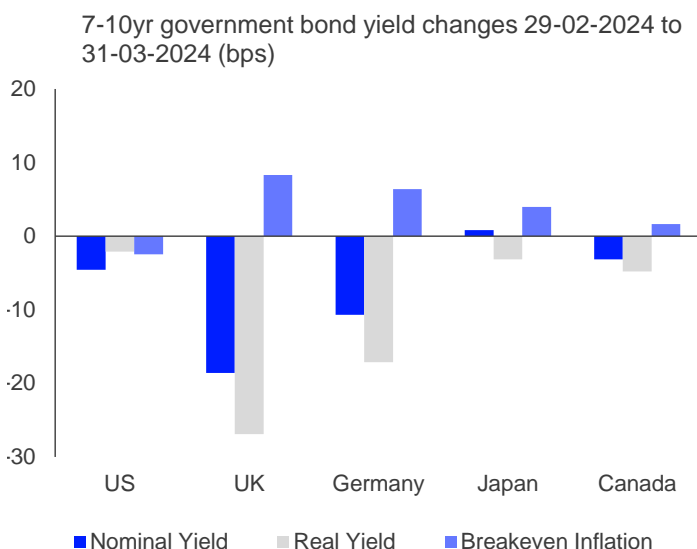
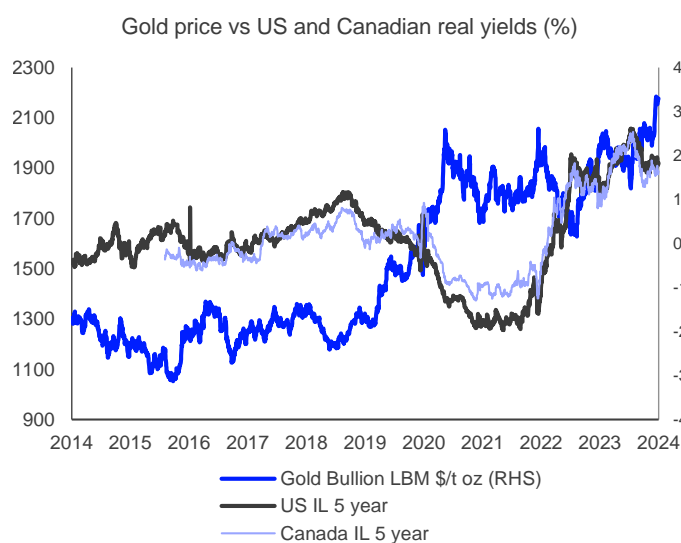


Chart 2: The gold price has reached new highs in 2023-24, despite the rise in real yields & the previous negative correlation has broken down.



Source: FTSE Russell and LSEG. All data as of March 31, 2024. 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 Indices. See Appendix for list of indices used for each market.

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Canadian Governments, Provinces and Municipalities

Chart 1: The Canadian yield curve remained inverted in March, after the BoC ruled out early policy easing, and the market priced in rates staying higher for longer as a result.

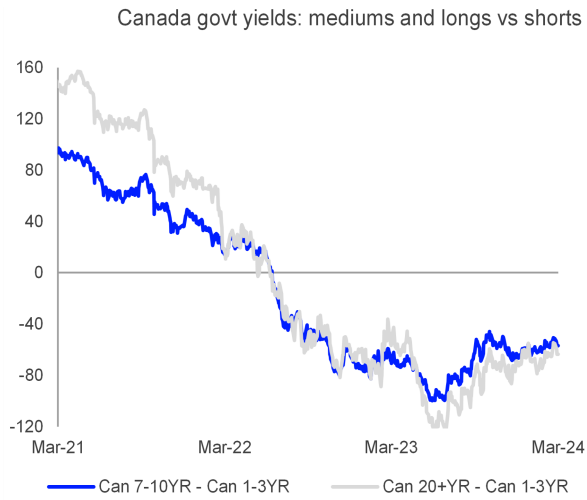


Chart 2: 7-10 year Canadian spreads have remained relatively stable, rangebound since January, and negative versus US Treasuries and gilts, and positive relative to Bunds and JGBs.

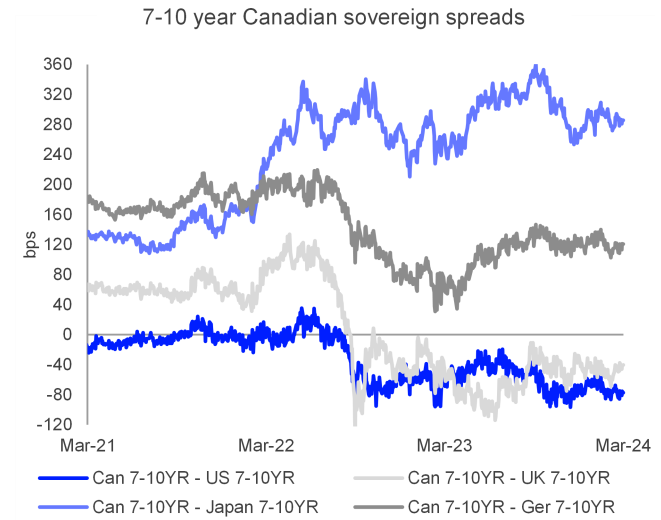


Chart 3: Both long Canadian and real yield bond yields remain near 15-year highs, though below the Q4 2023 peak levels, helped by Canadian inflation falling below expectations.

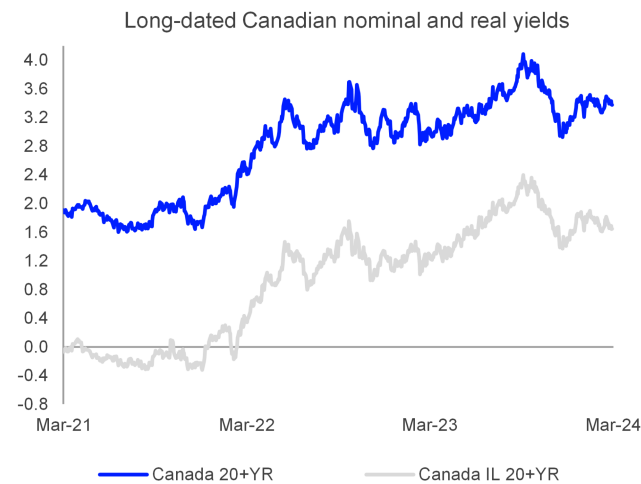


Chart 4: Inflation breakevens moved higher in Q1, repeating the pro-cyclical pattern of breakevens rising and falling with nominal yields (e.g., they fell in the Q4 rally as nominal yields fell faster).

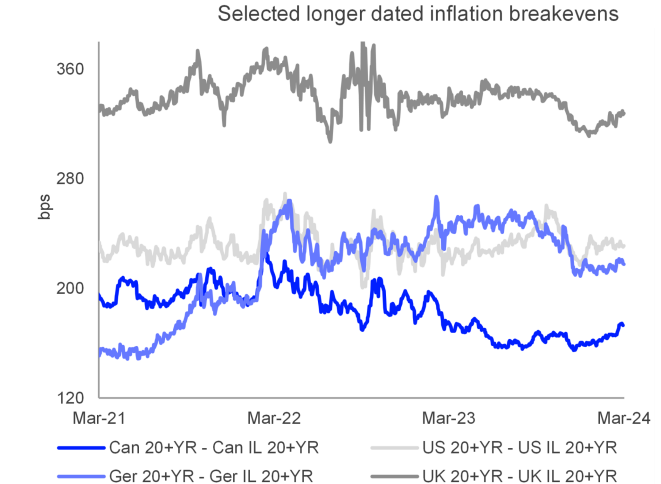


Chart 5: 7-10 year Provincial spreads have decoupled in Q1, with Alberta spreads tightening the most, followed by Quebec, despite sharing similar credit ratings.

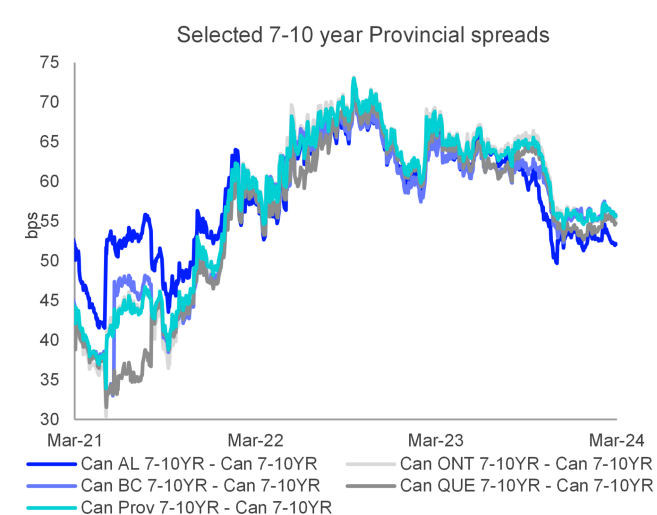
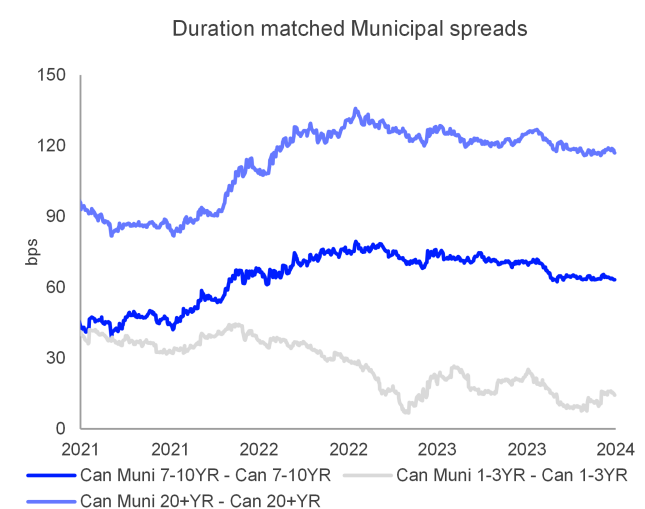


Chart 6: Of note this month is the back-up of short municipal spreads, which reversed several months of decline, while longer muni spreads fell, after markets readjusted to rates staying higher.



Source: FTSE Russell. All data as of March 31, 2024. Past performance is no guarantee of future results. Please see the end for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix Glossary for list of indices used for each market. For professional investors only.

Canadian Investment Grade Credit Analysis

Chart 1: Canadian corporate bond spreads have fallen across the whole of the quality spectrum in the risk rally, but lower quality spreads have tightened more vs AAA since 2021-22.

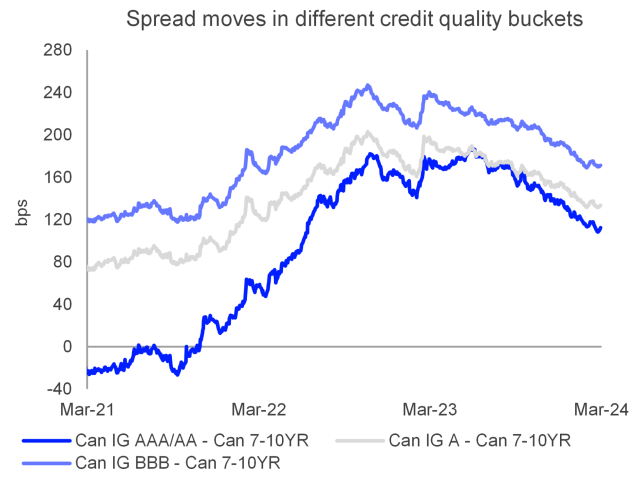


Chart 2: Financial spreads have fallen to the same level as infrastructure spreads, helped by the prospect of higher for longer rates. Real estate spreads have also fallen since rates stabilised.

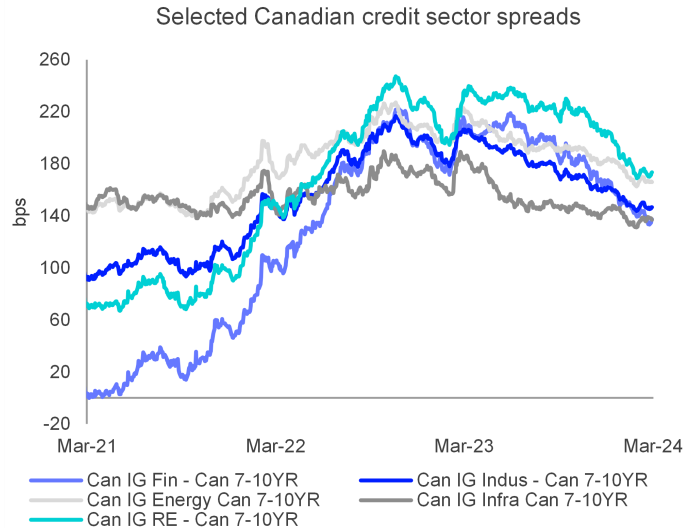


Chart 3: A-rated issuers represent 47% in the FTSE Canadian investment grade corporate bond universe, followed by 44% from BBB rated bonds.

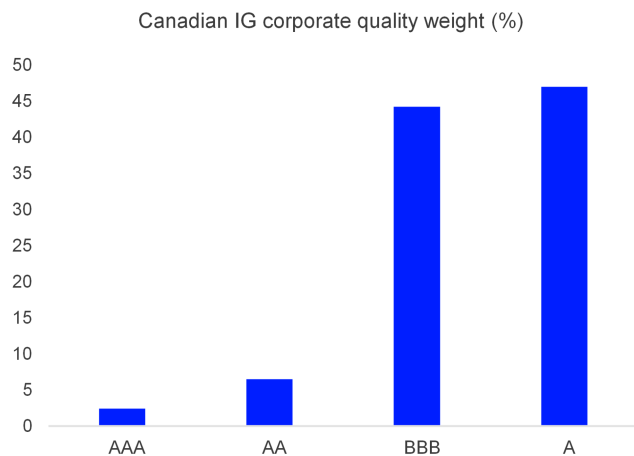


Chart 4: Financials dominate the Canadian IG credit universe, with a weighting of 39%, followed by energy, 22%, and infrastructure, 15%, in March.

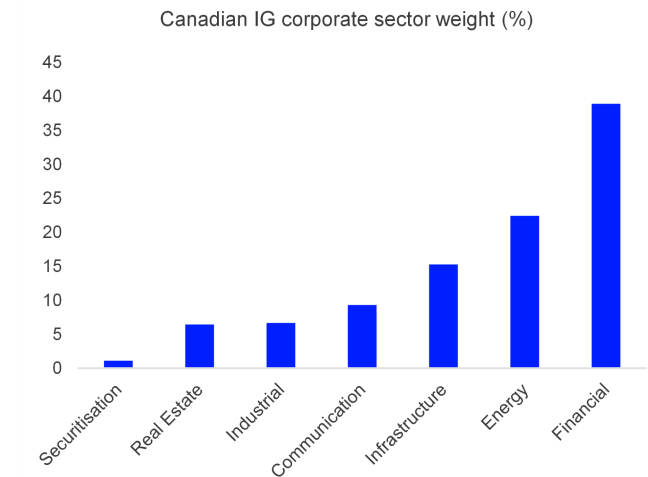


Chart 5: Corporate bond spreads barely moved in March as investors awaited signals from the BoC on its next move, while investors did not appear to opt for a specific rating preference.

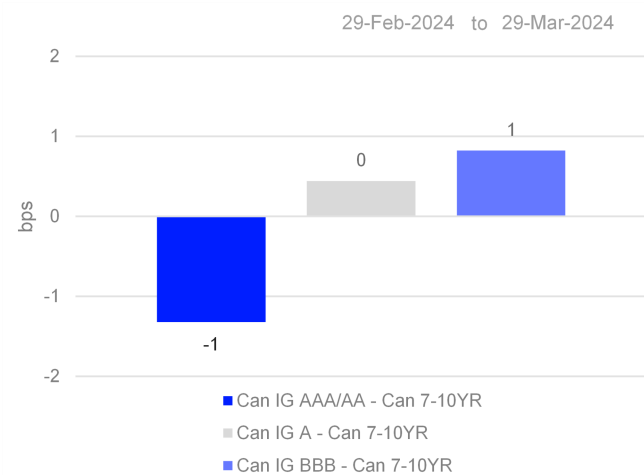
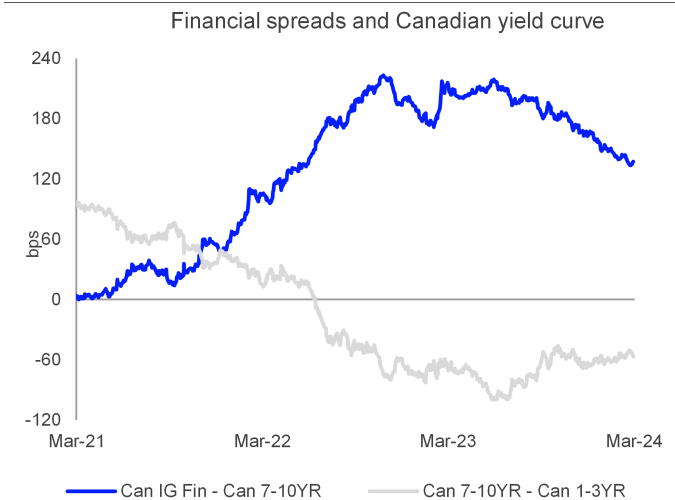


Chart 6: Modest yield curve steepening, helped Canadian financial spreads to tighten in recent months, as financials benefit from higher net interest income with a steeper yield curve.



Source: FTSE Russell. All data as of March 21 charts 2 and 3 only; March 31, 2024. Past performance is no guarantee of future results. Please see the end for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix Glossary for list of indices used for each market. For professional investors only.

Canadian High Yield Credit Analysis

Chart 1: Canadian HY yields have fallen more steeply than US HYs, which have been more stable since January. Decoupling within IG corporates also reflect differing economic strength.

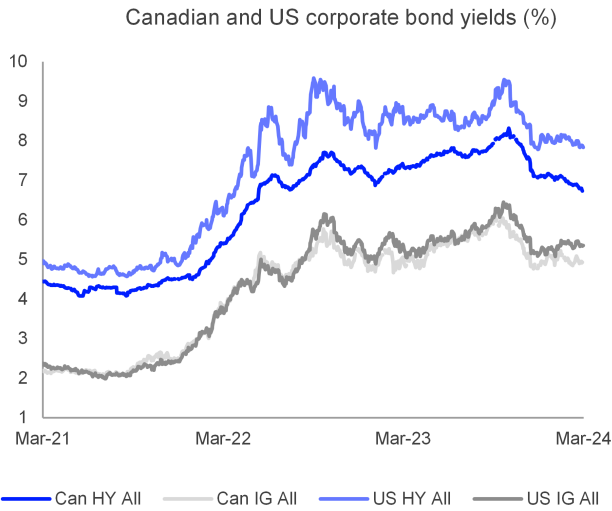


Chart 2: Canadian high yield spreads have tightened further than US HY in Q1, after a sustained period of underperformance relative to the US, in 2023.

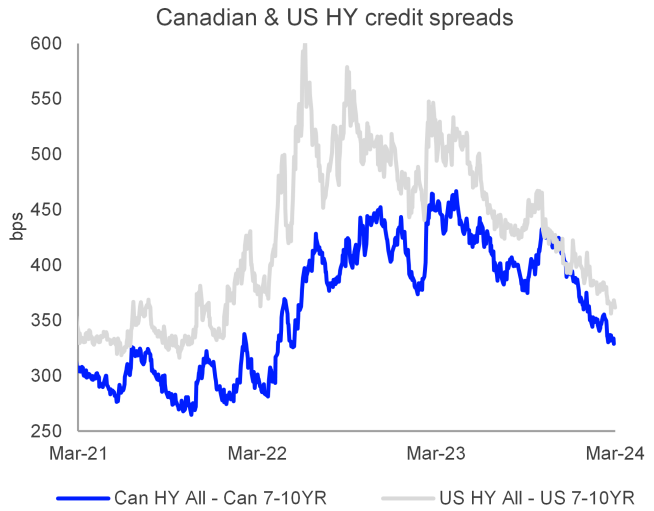


Chart 3: The risk rally drove HY spreads tighter in Canada but also reduced measured duration in most sectors, as HY bond prices increased relative to government bond yields.

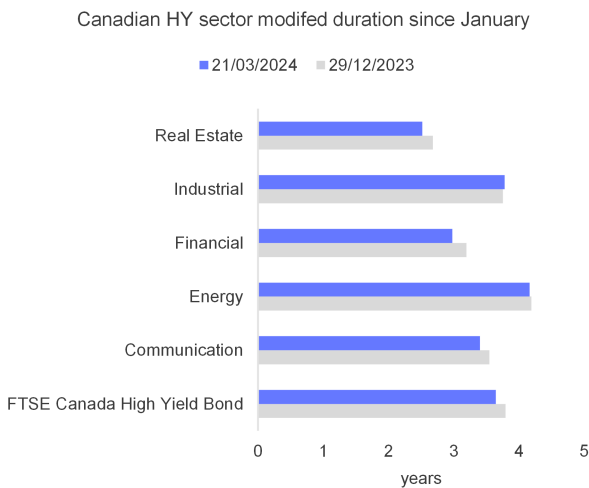


Chart 4: Reflecting the risk rally, duration of HY bonds has fallen since the risk rally began in 2022, and the BoC steadily raised rates. Also note that HY duration can be unpredictable.

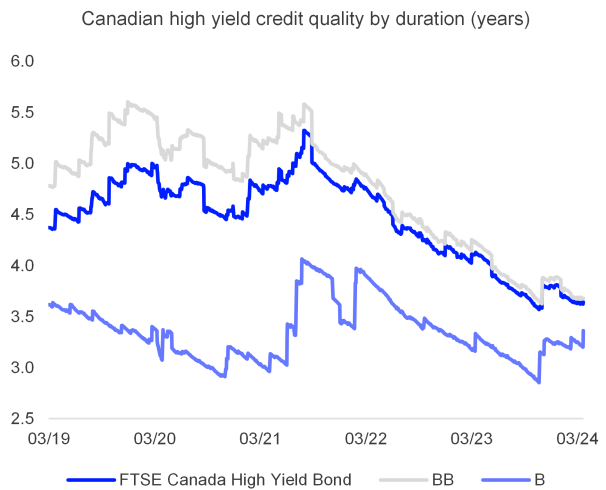


Chart 5: Real estate yields have fallen the most on lower inflation and anticipation of rate cuts, while the financial sector has seen its yield rise from about 4% in 2029 to 7% in March.

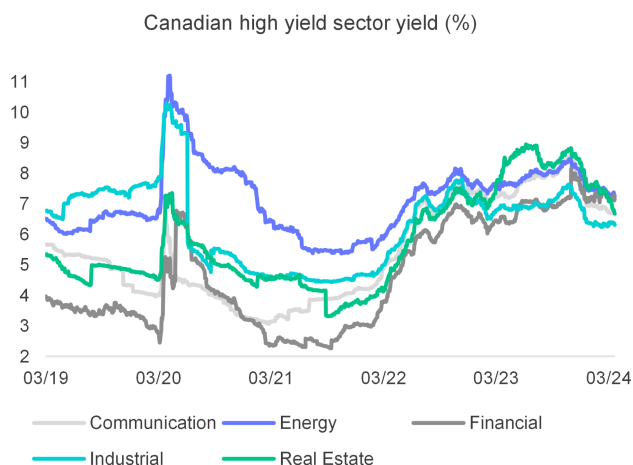
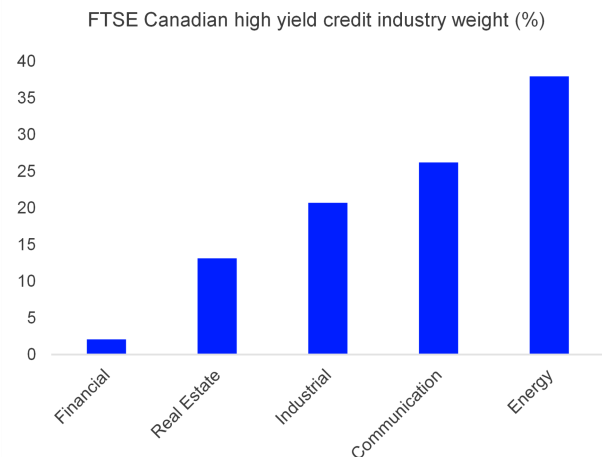


Chart 6: Energy has the highest weight in the FTSE Canadian HY (38%), while financials are only 2% – a contrast with their 38% sector weight in the Canadian investment grade universe (p 4).



Source: FTSE Russell. All data as of March 21, 2024. Charts 1 and 2 from March 31, 2024; Past performance is no guarantee of future results. Please see the end for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix Glossary for list of indices used for each market. For professional investors only.

Appendix – Canadian Historical Bond Yields % as of March 31, 2024

Canadian Bond Yields

Top 15% Bottom 15%

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

		1-3YR	7-10YR	20+YR	All Mat
Canada	Current	4.01	3.44	3.38	
	3MAgo	3.73	3.10	3.04	
	6MAgo	4.70	4.07	3.88	
	12MAgo	3.58	2.87	3.03	
IL	Current			1.65	
	3MAgo			1.45	
	6MAgo			2.22	
	12MAgo			1.28	
Provincial	Current	4.15	4.00	4.34	4.20
	3MAgo	3.82	3.66	4.01	3.86
	6MAgo	4.87	4.72	4.90	4.84
	12MAgo	3.72	3.54	4.08	3.84
Ontario	Current	4.15	3.99	4.32	4.18
	3MAgo	3.86	3.66	3.99	3.86
	6MAgo	4.88	4.73	4.90	4.85
	12MAgo	3.74	3.54	4.07	3.83
Quebec	Current	4.10	3.99	4.32	4.18
	3MAgo	3.74	3.64	3.96	3.83
	6MAgo	4.80	4.71	4.86	4.81
	12MAgo	3.69	3.53	4.04	3.83
Alberta	Current	4.14	3.96	4.37	4.18
	3MAgo	3.81	3.63	4.05	3.86
	6MAgo	4.89	4.68	4.89	4.82
	12MAgo	3.69	3.52	4.10	3.82
BC	Current	4.21	4.00	4.32	4.19
	3MAgo	3.87	3.65	3.99	3.85
	6MAgo	4.93	4.69	4.88	4.82
	12MAgo	3.67	3.51	4.05	3.80
Municipal	Current	4.15	4.07	4.55	4.31
	3MAgo	3.83	3.74	4.23	3.98
	6MAgo	4.93	4.78	5.14	4.98
	12MAgo	3.77	3.61	4.29	3.96
Corporate	Current	4.86	4.92	5.07	4.92
	3MAgo	4.76	4.71	4.84	4.77
	6MAgo	5.94	5.91	5.78	5.90
	12MAgo	4.99	4.88	5.08	5.00
High Yield	Current				6.73
	3MAgo				7.07
	6MAgo				7.93
	12MAgo				7.37

		1-5YR	5-10YR	20+YR	All Mat
AAA/AA	Current	4.58	4.48	4.56	4.56
	3MAgo	4.46	4.38	4.27	4.46
	6MAgo	5.66	5.65	5.21	5.65
	12MAgo	4.64	4.50	4.58	4.63
A	Current	4.77	4.66	4.84	4.78
	3MAgo	4.68	4.44	4.57	4.61
	6MAgo	5.85	5.61	5.49	5.72
	12MAgo	4.91	4.56	4.80	4.83
BBB	Current	5.07	5.08	5.42	5.15
	3MAgo	2.20	1.72	1.96	5.01
	6MAgo	2.72	2.29	2.37	6.15
	12MAgo	1.50	1.15	1.45	5.27
Comm	Current	4.85	5.41	5.06	4.98
	3MAgo	4.64	5.21	4.91	4.78
	6MAgo	5.94	6.24	6.07	5.97
	12MAgo	4.82	5.55	5.01	5.12
Energy	Current	5.06	5.06	5.16	5.10
	3MAgo	4.91	4.84	4.98	4.92
	6MAgo	6.07	6.01	5.91	5.99
	12MAgo	5.01	5.03	5.18	5.09
Financial	Current	4.81	4.86	4.97	4.82
	3MAgo	4.73	4.72	4.79	4.73
	6MAgo	5.93	6.01	5.75	5.93
	12MAgo	4.99	4.99	5.25	5.00
Industrial	Current	4.84	4.83	5.13	4.91
	3MAgo	4.66	4.58	4.90	4.70
	6MAgo	5.81	5.72	5.81	5.79
	12MAgo	4.88	4.78	5.23	4.94
Infrastructure	Current	4.58	4.64	4.91	4.81
	3MAgo	4.35	4.40	4.62	4.54
	6MAgo	5.51	5.53	5.55	5.54
	12MAgo	4.50	4.46	4.83	4.72
Securitization	Current	4.86			4.86
	3MAgo	4.82			4.82
	6MAgo	5.90			5.91
	12MAgo	4.93			4.93

Indices 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.

Source: FTSE Russell. All data as of March 31, 2024. Past performance is no guarantee of future results. Please see the end for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix Glossary for list of indices used for each market. For professional investors only.

Appendix – Glossary

Bond markets are based on the following indices:

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 Indices**

1-3YR = Short Term Bond Indices

7-10YR = Mid Term Bond Indices

20+ YR = Long Term Bond Indices

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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