

# Client Update: Heading Closer to Rock Bottom

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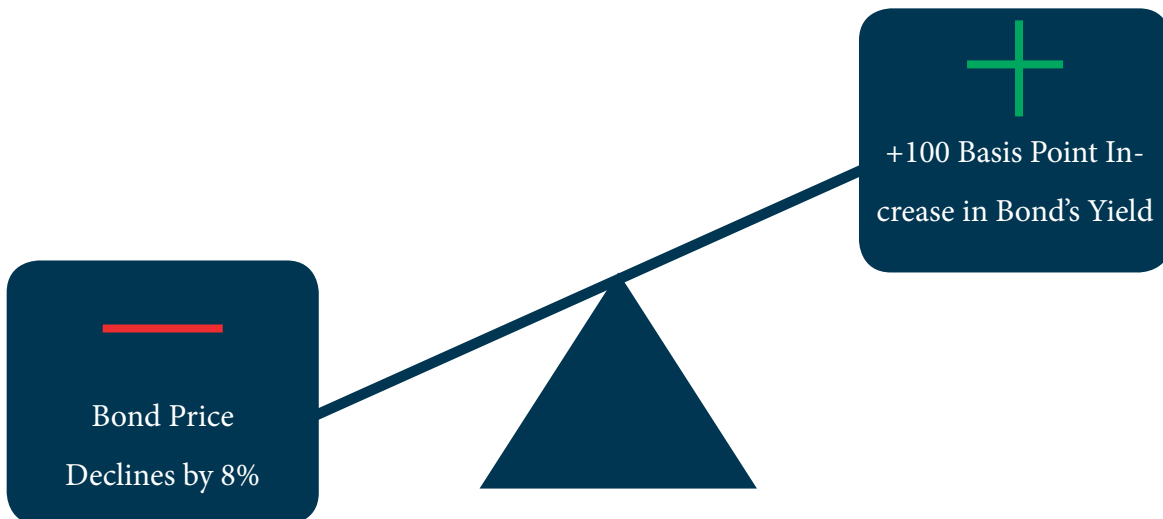








For example, consider a 10 year bond which currently yields 1.34%. An investor who buys the bond at this level and subsequently experiences a +1.00% increase in market rates (i.e. to the levels we last saw in April 2019) will see that bond's price drop by 8%. An 8% drop in price causes enough damage to wipe out the equivalent of 6 years' worth of that bond's income return.





# Conclusion

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Given our rate outlook heading into 2020 and where we've already positioned portfolios, we seriously considered adding long-term (30 year) zero-coupon bonds to protect against falling rates. As it turns out, this would have been a timely move, as the recent drop in market yields would have driven the price of such bonds significantly higher. This would have significantly boosted our portfolio total returns.

However, our primary responsibility is to protect your wealth, especially with the safe fixed income assets. When viewed in this context, it's clear that buying the zeroes would have been a form of speculative protection and outside our core mandate. We therefore elected not to add this type of protection against falling rates.

We remain very concerned with the significant negative impact of ultra-low interest rates will have on our clients' lifestyles and financial goals. Although this is a major challenge without an easy answer, the solution doesn't involve reaching for yield irrespective of risk.

As a result, our strategy has been to add intermediate maturity corporate bonds with attractive spreads over Treasuries and shorter-dated municipal bonds, while maintaining existing longer-term positions. While the absolute level of yields in such purchases is unsatisfying, they provide a minimal baseline of income without taking on added price risk.

After a decade of excellent equity returns and declining interest rates, the investment climate is sure to become more challenging. We remain very focused and are immensely grateful for the trust and confidence you place in us. Feel free to reach out to discuss how these trends affect your individual portfolio.



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