



BLACKMONT

CAPITAL™

FIXED INCOME

After a straight line summer rally, bonds have experienced some serious whipsawing since. Using the ten year US Treasury note as a proxy, yields fell from 5.25% in late June to 4.53% on September 25. Then, in reaction to some unpleasant headline inflation news and some hawkish rhetoric from Federal Reserve Board officials, the most actively traded bond in the world sold off to 4.83%.

Next, a veritable slew of economic data confirmed weakening U.S. economic growth, with a weak Q3 GDP and an ongoing slide in the housing market beginning to spill over into consumer confidence. The important ISM survey indicated that the manufacturing sectors were also slower.

Inflationary concerns abated as witness the mild PCE numbers for the third quarter. The ten year rallied almost all the way back to the 4.53% before being ambushed by that market-moving menace, the employment report, last Friday. Massive revisions to previous months' data, plus a drop in the unemployment rate and growth in hourly earnings soured the appetite of bond investors and this bond was hammered to the 4.73% level. The Canadian market mirrored most of this move as we had a surprising employment report of our own.

OUTLOOK

Nothing has happened to change our view that the US economy is heading for a “soft landing” with sub par economic growth for the next few quarters and attendant diminution of inflation and inflationary expectations. There may be more of these bouts of weakness which will present buying opportunities. We still think that these ten year bonds may reach 4% over the next two quarters.

The Fed and the Bank of Canada are on the sidelines indefinitely. In fact, the Fed's language after the recent FOMC meeting was more dovish than the street had forecast.

STRATEGY

We continue to recommend extending duration in bond portfolios. For taxable accounts, we recommend ten year and longer provincials and ten year good quality corporates. For RRSPs, we favour long term provincial zero coupon bonds.

The statements and statistics contained herein have been prepared by sources we believe to be reliable but we cannot represent that they are complete and accurate. This material is published for general information only. BCI assumes no liability for financial decisions based on this information. Readers should obtain professional advice before applying any ideas mentioned to their own personal situation to ensure their individual circumstances have been properly considered. Blackmont Capital Inc. is a member of CIPF and IDA.