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Answering Your Questions on Fixed Income

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What are your thoughts on the fixed-income market today?

The fixed-income market continues to present significant challenges for income-seeking investors. If held to maturity, negative-yielding bonds guarantee a negative return and low-yield bonds guarantee a low return. We believe a buy-and-hold strategy will not work in the current environment; investors need active management, including tactical asset allocation, as well as a multi-asset approach to fixed income.

As a portfolio construction tool, we believe fixed income is still an effective hedge against equity market risk. Almost every time stocks have sold off during the last decade, bonds have rallied. This is also true of bonds trading at negative yields. We also believe that additional demand for bonds from an aging population and quantitative easing by central banks will provide a floor for fixed income prices.

How are your portfolios currently positioned in fixed income?

We have not had "normal" yields, which we define as inflation plus 2-3%, for over a decade since central banks began interfering in fixed-income markets by implementing quantitative easing and low to negative interest rates. As such, our team has been cautious and reduced our allocation to interest-rate-sensitive fixed income.

In our last asset mix change, we reduced our exposure to "core" fixed income and allocated more to "unconstrained" fixed income, which provided more flexibility by using tactical asset allocation and income substitutes like real estate and infrastructure. The benefit of unconstrained mandates is that they allow for timely positioning changes in as little as a day to respond to changing market conditions. They also provide exposure to income-equity assets including real estate, infrastructure, utilities and pipelines, which offer higher yields and better return potential than core fixed income in the current market.

Looking forward, we do not expect central banks to hike interest rates in the short term. However, markets have priced in high expectations for rate cuts. In our opinion, central banks will fall short of investor expectations as the prospect of a China-U.S. trade deal and economic fundamentals are both improving. Until central banks move to a "hawkish" tone, which we do not believe will happen until late 2020 at the earliest, we see limited downside in our current levels of core fixed income. However, we believe that an underweight positioning is justified as we are finding better investment opportunities elsewhere.

If stock market momentum deteriorates, will our fixed-income holdings provide adequate safeguards?

As mentioned above, we believe that fixed income will provide an offset to equity weakness and we continue to hold a position in line with our market outlook. If we start to see signals of equity weakness, we can add downside protection by increasing the fixed-income weight or raising the duration (or interest rate sensitivity) of our fixed-income holdings. We have also built a position in gold bullion to provide some portfolio protection against equity weakness.

We believe that the action that we have taken sufficiently addresses concerns about the fixed-income market. Our team has a number of tools available to adjust our positioning and adapt to changing market dynamics. We will keep you abreast of any significant changes in the portfolios.

Combined top 15 equity holdings as of October 31, 2019 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:

1. Enbridge Inc.	6. Toronto-Dominion Bank	11. Magna International Inc.
2. Microsoft Corp.	7. Gilead Sciences, Inc.	12. ATCO Ltd.
3. Canadian Natural Resources Ltd.	8. Royal Bank of Canada	13. Canadian Pacific Railway Ltd.
4. AltaGas Ltd.	9. Alphabet Inc.	14. Apple Inc.
5. iA Financial Corporation	10. Bank of Nova Scotia	15. Anthem Inc.