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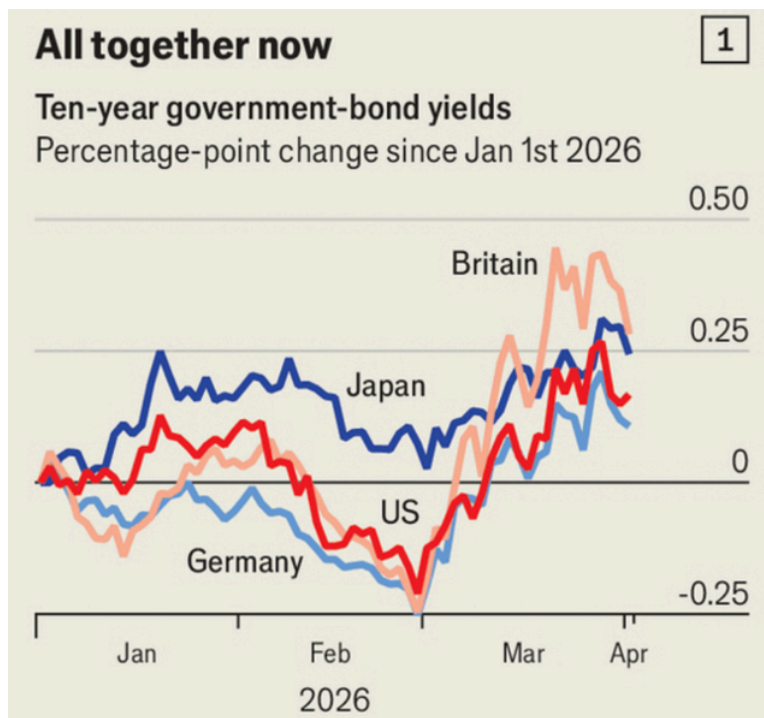
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Sponsoring Mutual Fund Dealer



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In the continuum of numerical infinity there are some numbers which stand out above others for consideration. Pi for example, the transcendental metric derived from dividing a circle's distance around from its width across. Or Avogadro's constant, an absolute representing the number of particles in a given substance (such as the number of grains of sand on a beach). And of course zero (0), a fundamental unit which serves as a foundation of modern mathematics, allowing for both negative numbers and for forming the basis of binary computing (0 and 1).

But in the modern era there is one number which stands above the rest, and it is unquestionably the yield on the ten-year American treasury bond. The world's most important number stood below 4% at the end of February, the eve of the US-Israeli war on Iran. Since, it has risen to above 4.4%, a difference that determines whether American's can afford a new house or not. More, it's not just in the United States as around the world bond yields have soared in the wake of the war.



Life's optimists generally do not pursue careers in bond investing. The whole job involves considering just how gloomy things might get. In the case of the Iran war, this means fretting about stagflation (1970s-style

economic stagnation with high inflation). When bond holders think inflation will flare, they demand higher yields as compensation for the erosion of their principal's purchasing power, and they expect central bankers to raise rates to cool prices. When they think growth is stalling, they accept lower yields because a more sluggish economy reduces demand for their capital and because monetary policy is likely to be losses to help reheat the economy.

The longer the Hormuz Strait stays shut, the greater the pressure on rates. This impacts bond markets fundamentally, as bond prices move inversely with interest rates. Based on an optimistic outcome where the war is concluded sooner than later, and where higher energy prices (and shortages in parts of the world) bond prices are expected to recover from their recent declines and deliver positive returns over the balance of the year.

But this outcome is less than certain and as such we are favouring bonds with shorter durations to maturity. These are less susceptible to higher rates going forward, allowing bonds to provide a haven from the vagaries of equity markets (where volatility is the order of the day).

We remain committed to bonds as a weighting in our asset allocations, notwithstanding the direction of the world's most important number. US treasuries offer investors capital preservation and steady, (mostly) predictable returns in the form of interest yields. What's more, is that bonds lower overall portfolio volatility, encouraging investors to stay the course when markets are under pressure (critical to capturing total market returns over the medium to long term).

Thanks for reading!

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Source (including graph): Economist

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