SEAMARK

*Waiting for Godot**

We are six years into an economic recovery after the latest financial crisis. Yet we continue to wait for the end of the low interest rate environment. Various theories, which aim to explain the behavior of yield curves, add color to SEAMARK's daily morning scrums. Whether we subscribe to them or not, we admit that the low interest rate period has now stretched into the better part of a decade. Since the Fed started to remove the stimulus, both U.S. and Canadian 10-year yields have declined 50 bps. In no particular order, the following are possible explanations for the state of the credit market:

• Adverse weather conditions in North America resulted in weak consumer demand in the first quar- ter, and therefore subdued economic growth. This dampened the overall growth expectations, which in turn pushed investors into the safety of government bonds.

• The geopolitical concerns in Ukraine and Iraq affected the overall outlook. This also caused an inflow to higher-rated sovereign debt.

• In order to convince the global markets that the start of the monetary tightening is not imminent, the Fed Board started to refer to both the unemployment rate and inflation in a more qualitative manner.

• There are not enough U.S. Treasury bonds to match the considerable demand for them. This de- mand stems from the aging populations and their need for income and relative safety of principal. In addition, pension plans had to replace their long-term maturities when prices were relatively rea- sonable at the end of 2013.

• Similarly, the OPEC countries and China also have demand for significant quantities of higher-rated sovereign debt.

• Inflation and expectations of inflation are muted. The Chair of the Fed and the Governor of the Bank of Canada have downplayed recent high numbers as either noise or as being temporary. The low inflation environment supports the low-yield expectations of the market.

• Addiction of the economies to the low interest rate environment is another theory why the yields have declined. Increasing interest rates may end up creating a headwind to economic growth, by reducing mortgage demand, and subsequently housing activity.

The above list summarizes most of the mainstream explanations, but the indisputable fact is that interest rates are moving independently from economic fundamentals. It is easier to rationalize market moves in retrospect. Instead of timing the market, SEAMARK invests with the risk profile of our clients in mind. Alt- hough our mid- to long-term outlook on the economy is positive, we prefer not to subscribe to a particular theory, which could be threatened by the volatile nature of the global economic system.

We manage investment risks for our clients. Currently in the bond world, range-bound interest rates now clearly have more price risk. Therefore, the era of treating bonds as a source of steady capital gain has end- ed. Another risk is on the inflation front. Recent numbers may not yet have the tailwind of wage increases. However, in growing economies exhausting the oversupply of labor before the inflation reflects in the wage levels is usually only a matter of time. The expectation of economic growth is itself a risk in the bond market, especially when interest rates are at an historical low.

In the context of these risks, SEAMARK favors shorter duration to protect our clients' fixed income portfoli- os. For investors who prefer to have bonds as a source of safety, we have developed a low volatility bond mandate to

protect the principal. With the mandate’s laddered structure, it will aim for a gradual increase in yield when the central banks start their monetary tightening. Our recommendation is to position against possible risks, rather than waiting for an ambiguous sign from the monetary authorities.

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** Waiting for Godot is a play written by Samuel Beckett. The two main characters of the play wait hopeless- ly for the arrival of someone named Godot.*