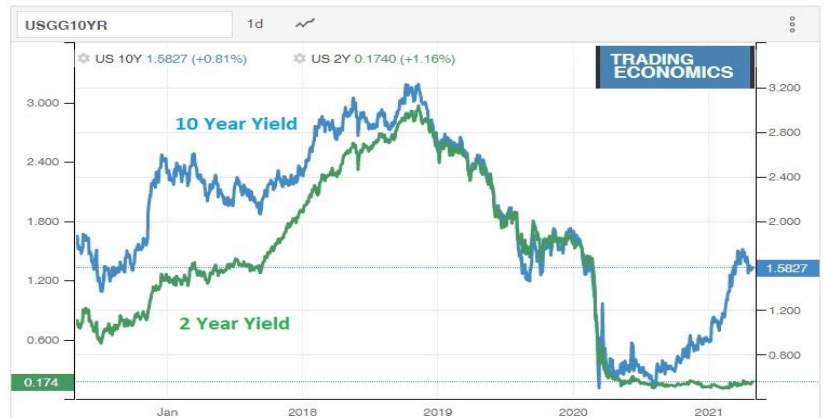


## Interest Rate Commentary – 2021 March 31

What a roller-coaster ride for bond investors this past year, and the first quarter of 2021 delivered an unsettling bump!

The graph below from Trading Economics compares the yield on the US Generic Government 10 Year bond with the yield on the comparable 2 year bond over the past 5 years. The arrival of COVID-19 in early 2020 saw bond yields plunge as investors sought safe havens, with both yields touching historic lows.

While the 2-year yield has remained around the 0.2% level since then, the 10-year yield had been slowly climbing back from a low of 0.5% back to about 1% by year end, and climbed another 0.5% in the first quarter alone. This should not be a great surprise given that inflation has been hovering around 2% for almost the past 20 years, and bond yields are rarely less than inflation for long. Unfortunately, this rebound in yields also erased some of the extraordinary gains in longer-dated bonds over 2020.

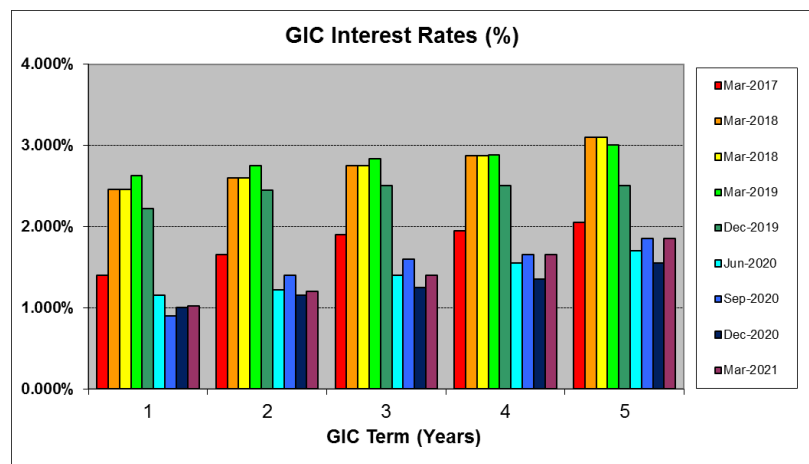


GICs offer a decent alternative to bonds, and GIC rates tend to move along with bond yields. The bar graph below shows the top interest rates available March 31<sup>st</sup> and at several past dates for terms of 1-5 years (rates from Cannex Information Exchanges).

You can see the 1 year yield has remained near 1% since last summer, while 5-year terms had dropped further and then recovered more – a similar pattern to the bond yields.

The difference or ‘spread’ between 1-year and 5-year terms has rarely been as tight as it was last year, but it has been widening again. By mid-April 2021, our best 5 year rate was again over 2%. (We’re celebrating!)

No doubt the rates will continue to edge higher very slowly as the economic recovery continues.



Please call us if you would like to explore GIC offerings from over 25 Canadian banks and trust companies willing to compete for your deposits.

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