Morgan Stanley

WEALTH MANAGEMENT CANADA

Canadian Market Insights | November 2023

INVESTMENT STRATEGY

Bringing Income Back into Fixed Income; Tactically Positive on Fixed Income

Executive Summary

- **We believe the low interest rate regime has now ended, and a new era of interest rate normalization has arrived, providing an opportunity for investors to revisit their fixed income allocations**. Today, bonds are providing higher coupons than in the past, and they are inexpensive relative to US stocks.

- While they offer potential for portfolio hedging against slowing growth, the stock-bond correlation has turned positive, which has historically persisted in an inflationary environment.

- **From a tactical asset allocation perspective, Morgan Stanley Wealth Management is overweight fixed income relative to the policy benchmark**. Our positive outlook for fixed income is based on a "higher-for-longer" regime that creates opportunities to own better risk-adjusted returns in current coupons, with the potential for capital gains if rates fade in 2024, as is forecasted.

- In this article we provide an overview of fixed income investing, while highlighting an interesting set up for bonds as we near the end of interest rate hikes.

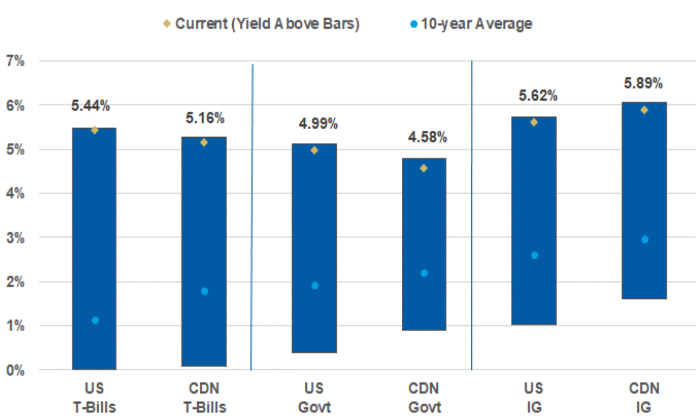
- Finally, we discuss two implementation strategies for our positive view of fixed income: dollar-cost averaging and bond-ladder strategies.

Section One: Fixed Income Plays an Important Role in a Portfolio

While there is a wide spectrum of quality and risk within fixed income investing, these investments typically play three roles in a portfolio:

First, as the name implies, fixed income can provide a stable source of income over the short to long term through regular and usually predetermined coupon payments. Unlike equities, fixed income investments carry more explicit and predictable income streams. Historically, coupons have made up most of the total return on bonds. Today, bond investors can expect to receive higher coupon income compared to the recent past. We show in Chart 1 that current yields are at or close to 10-year highs for US and Canadian government and corporate bonds.

Chart 1: Current And Historical Bond Yields (2013-2023) US And Canadian Government and Corporates

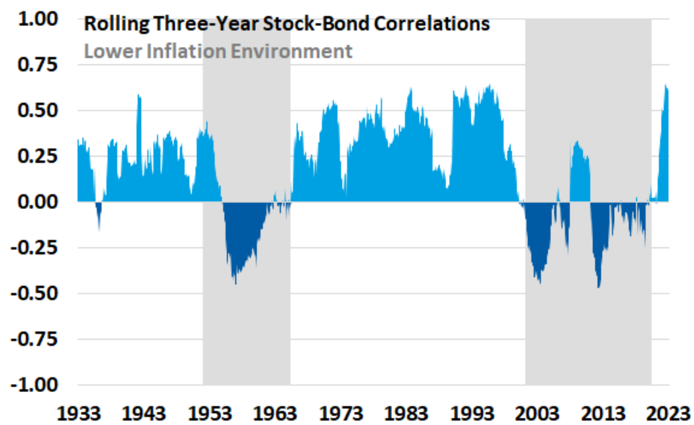


Source and Notes: Bloomberg as of Oct 24/23, all Index data priced in local currency using daily data from October 2013 to October 2023 where available. Index proxies: "US T-Bills" (Blomberg US Treasury Bills 1-3 Months 1-3 Months TR Index), "CDN T-Bills" (Bloomberg Canada Treasury Bills), "US Govt" (Bloomberg US Treasury Total Return Unhedged USD), "CDN Govt" (Bloomberg Canada Aggregate – Government Total Return Index Unhedged CAD), "US IG" (US Investment Grade Credit, proxy by Bloomberg US Aggregate), "CDN IG" (Canadian Investment Grade Credit, proxy by Bloomberg Canada Aggregate Corporate Total Return Index Value Unhedged CAD). You cannot invest directly in an index, all return data is before fees, taxes, and transaction costs. Past performance is no guarantee of future results.

Second, fixed income may also provide a relatively higher degree of capital preservation when compared to equities. Fixed income investments like bonds issued by or guaranteed by stable governments, or companies with good balance sheets and/or specific collateral backing the bonds, have historically provided a track record of protecting capital. This capital preservation characteristic of high-quality bonds may serve to dampen total portfolio volatility when combined with equities. In some cases, the lower total portfolio volatility may allow investors to remain invested during equity market selloffs.

Third, fixed income may provide portfolio diversification benefits to equities. One caveat here is that the diversification benefits, defined by the correlation between bonds and stocks, may change over time. Investors benefit from portfolio diversification when the correlation between two or more assets is low or negative, so when one asset falls in value, the other tends to rise in value. When correlations are positive, or close to 1.00, there is little to no diversification benefit. As shown in Chart 2, the three-year rolling correlations between bonds and stocks have shifted over time. Most importantly, the diversification benefits of bonds occurred during lower inflationary environments, while in normal or higher inflation environments, fixed income served as a less effective diversifier for equities.

Chart 2: Rolling three-year stock-bond correlations (1933 to 2023)



Source: Source: Morgan Stanley Wealth Management Global Investment Committee and Portfolio Analytics, calculated with data provided by Bloomberg, FactSet and Morningstar as of September 30, 2023

We expect that while US stock-bond correlations are relatively high today, that this correlation may decrease somewhat in the event of an earnings recession. In addition to long-term correlation trends, it's important to also highlight how higher-quality bonds have performed during specific periods of stock market selloffs. In the next table we highlight the performance of US Bonds, US Stocks, and a portfolio consisting of 60% US Stocks and 40% US Bonds ('60/40 Portfolio') for a few short-term selloffs in stocks, and two more recent events.

Table 1. Historical Price Reaction of US Bonds to Sell-offs in US Stocks

Event	Date	US Bonds	US Stocks	60/40 Portfolio
Oil Shock / Recession	Jan 1973 to Oct 1974	-8.2%	-46.2%	-31.0%
Double-Dip Recession	Nov 1980 to Aug 1982	21.6%	-27.1%	-7.6%
87 Stock Market Crash	Aug 1987 to Dec 1987	2.2%	-30.2%	-17.2%
Dot-com Bubble	Mar 2000 to Sept 2001	20.5%	-31.7%	-10.8%
Great Financial Crisis	Oct 2007 to Nov 2008	7.3%	-51.7%	-28.1%
Flash crash	Apr 2010 to Jun 2010	3.0%	-15.6%	-8.2%
US debt downgrade	Apr 2011 to Oct 2011	5.4%	-18.6%	-9.0%
China slowdown	May 2015 to Aug 2015	0.0%	-11.9%	-7.1%
Oil price shock	Nov 2015 to Feb 2016	1.9%	-12.7%	-6.9%
US inflation / rate scare	Jan 2018 to Feb 2018	-1.0%	-10.1%	-6.5%
Global sell-off	Sept 2018 to Dec 2018	1.6%	-19.4%	-11.0%
COVID 19	Jan 2020 to Mar 2020	8.8%	-20.6%	-8.8%
Post-COVID Inflation	**Jan 2021 to Oct 2022**	**-17.1%**	**-4.6%**	**-9.6%**
US debt downgrade II	August 1, 2023	-0.6%	-1.6%	-1.2%
	Average	**3.2%**	**-21.6%**	**-11.6%**
Number of events	**Bonds > Stocks**	**13**		
	Bonds < Stocks	**1**		

Source and notes: Bloomberg. All data in US Dollars, US Bonds proxy is the Bloomberg US Aggregate Index. US Stocks proxy is the S&P 500 Index. 60/40 Portfolio consists of 60% US Stocks, and 40% US Bonds throughout the specified time period in the above table. You cannot invest directly in an index and past performance is no guarantee of future performance.

Table 1 highlights that outside of the 'Post-COVID Inflation' period where bonds materially underperformed stocks, US bonds have historically declined less than stocks during periods of market selloffs. And in most of these past selloffs, the total return on bonds was still positive as the stock market declined. An important reminder that although correlations change over time and the diversification of stocks from bonds may change, when equities have sold off, bonds have usually held up.

To put it another way, a portfolio that consisted only of US stocks during these events would have experienced higher unrealized losses compared to the '60/40 Portfolio' – albeit with one exception the 'Post-COVID Inflation' period in Table 1. Outside of this period, the addition of US Bonds to a portfolio of US Stocks dampened the effect of the stock market selloff.

Finally, the table of historical stock market sell offs reminds us that although tightening of financial conditions was generally met with an easing of bond yields, benefiting bond holders, such easing of financial conditions did not always benefit stocks during the same period.

Section Two: Bringing Income Back into Fixed Income - The End of the Low Interest Rate Era

We are positive on fixed income investments for the following three reasons:

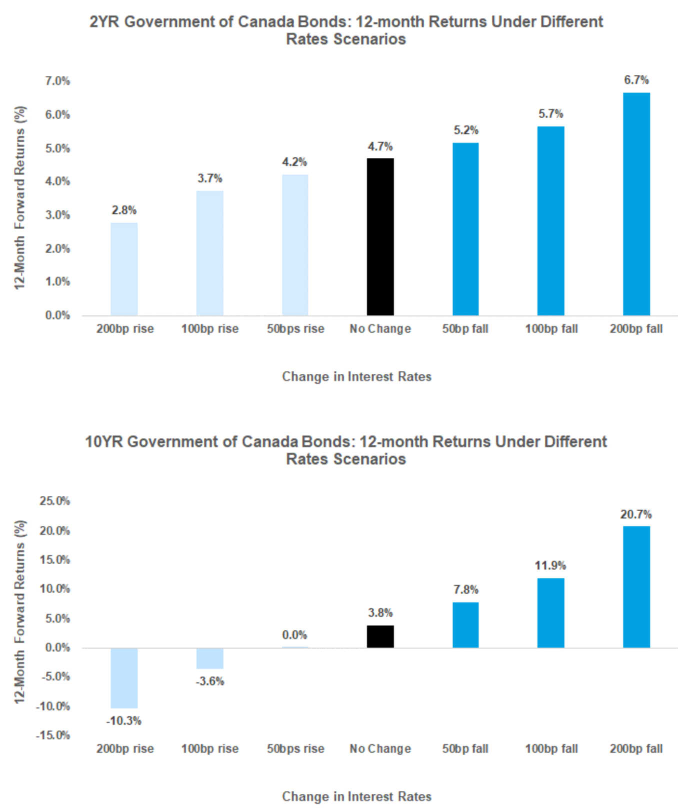
1. In absolute-value terms, higher yields per unit of interest rate risk, or duration, provide greater margins of safety for rising yields (see chart 3).

2. In relative-value terms, US Bonds appear attractive versus US Equites, a setup that has typically preceded relatively more favourable risk-adjusted returns.

3. We have likely moved closer to the end of this rate hiking cycle than the beginning, a positive for bond investors.

We illustrate the concept of margin of safety against a rising yield scenario using two different bonds in Chart 3. In the first chart, we calculate the 12-month forward returns for a current 2-year Government of Canada Bond, if interest rates were to rise/fall 2.0%, 1.0%, 0.5%, or see no change at all over the next year. And the second chart calculates the forward 12-month return under the same rate scenarios, but for a current 10-year Government of Canada Bond.

Chart 3: 12-Month Forward Return for Government of Canada 2-year and 10-year Bonds under Different Rates Scenarios



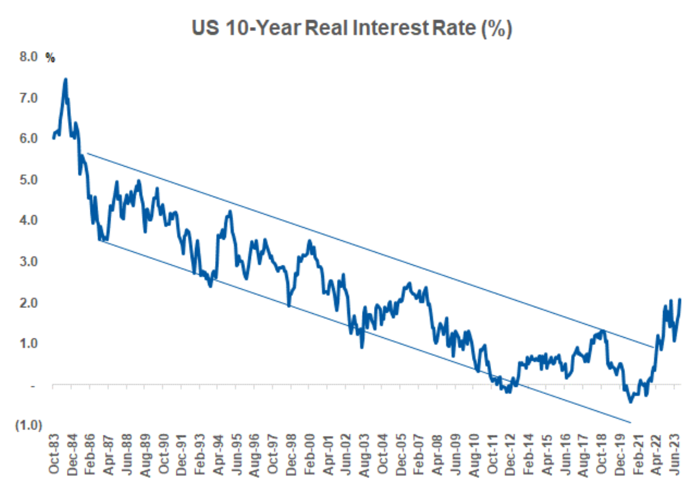
Source: Bloomberg as of October 24/23. All data in Canadian dollars, before transaction costs, fees, and taxes. A basis point equals 1/100th of one percent.

Based on the scenarios in Chart 3, the 12-month return for a 2-year Government of Canada Bond, is positive even if interest rates rise 2% from here. On the other side, if interest rates fall by 2%, the total return on that bond would be 6.7% over the next year. Because longer dated bonds are inherently more sensitive to changes in interest rates, the 12-month return scenarios are potentially more variable when compared to the 2-year maturity across the various rates scenarios. Still, the upside versus downside scenario for 10-year Government of Canada Bonds is relatively attractive when compared to just a few years ago given the increase in interest rates.

We believe the global economy has departed from an era of financial repression, which resulted in low and at times negative real interest rates, premised on disinflation or the threat of deflation. As shown in Chart 4, US 10-year real interest rates (nominal interest rates less breakeven inflation expectations) have now reached their highest levels in over a decade, breaking a forty-year secular downtrend.

We believe that the end of an era of negative to low interest rates will set the stage for more rational and longer-term capital discipline. For fixed income investors, this likely means a return to reasonable income return expectations, and for equity investors there is incremental competition for investment dollars from the fixed income side, and risk to some equity investment valuations

Chart 4: The End of Low / Negative Real Interest Rates



Source: Federal Reserve Bank of Cleveland, 10-Year Real Interest Rate, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/REAINTRATREARAT10Y, October 17, 2023.

Three factors behind the rise in bond yields: Our analysis suggests that the rate surge and rising US Government long bond yields are the result of at least three factors:

1. Larger-than-expected fiscal deficits that drove surprisingly

high second-half Treasury issuance

2. A reevaluation of the neutral policy rate given GDP growth in the face of Fed tightening

3. A reset of market expectations around the predictability of Fed policy amid the likely reality of "higher-for-longer" rates.

Over the long term, higher interest rates compared to pre-pandemic levels may persist due to higher growth and higher inflation: We expect that US long-term Treasury rates may normalize at higher levels, suggesting that today's yields may indicate fair value for longer-term investors. The logic hinges on a belief that the post-COVID US economy will look more like post-WWII than post-GFC in terms of average real growth—cycling around 2.5% to 3.0% per year, instead of barely 2.0%. While inflation averaged around 1.6% in the era of secular stagnation, we anticipate something potentially closer to 2.5% to 3.0%.

In the near term, we anticipate that US rates will face two major drivers: 1) Fed policy, targeted to contain inflationary pressure, and 2) the supply/demand factors in the US Treasury market.

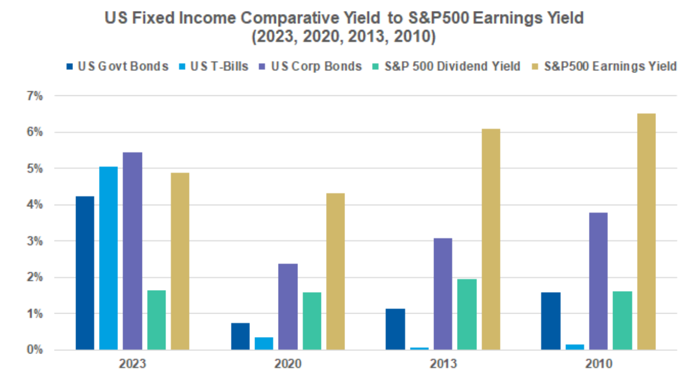
- In terms of Fed policy, the US economy has remained surprisingly resilient in 2023, as households and corporates have demonstrated lower sensitivity to higher interest rates this time around, amid a structurally tight labour market. This may keep the Fed in a tightening bias until the economy slows and/or inflation is persistently below target.

- US Treasury supply is moving higher as fiscal deficits rise. Meanwhile, Treasury demand has softened, facing a rare dearth of buyers, as the Fed manages down its balance sheet, Japanese investors are constrained by JPY weakness and higher hedging costs, and China has been reducing its share of auction purchases since 2018—more so since the latest stand-offs over semiconductor sanctions. Furthermore, Washington dysfunction has inhibited confidence in the Treasury marker, given than a serious approach to contending with US debt sustainability is likely months or years away.

Monetary policy and the current yield-curve inversion have helped short-end rates ascend to notably high levels; however, these returns may decline if/when the Federal Reserve reduces its benchmark target. Though the "higher for longer" rate narrative is now highly apparent in the Fed's interest rate forecast (Summary of Economic Projections, or 'dot-plots), this latter consideration is worth noting now that the central bank has transitioned toward taking a pause in raising rates. Hence, the trajectory of monetary policy may be in the early stages of redirection.

We show the progression of US government bond yields over the last decade in Chart 5. This has been one of the fastest tightening cycles outside of the early 1980s which is evident by the relative increase in yields from 2020 until this year.

Chart 5. Relative Yield on US Fixed Income versus US Equities



Source: Bloomberg as of Oct 18/23. Proxies used for Fixed Income: US Govt Bonds = Bloomberg US Treasury Total Return Unhedged USD, US T-Bills (Bloomberg U.S. Treasury Bills: 1-3 Months), US Corp Bonds (Bloomberg US Corporate Total Return Value Unhedged USD. All data in US dollars. You cannot invest directly in an index, and past performance is no guarantee of future performance.

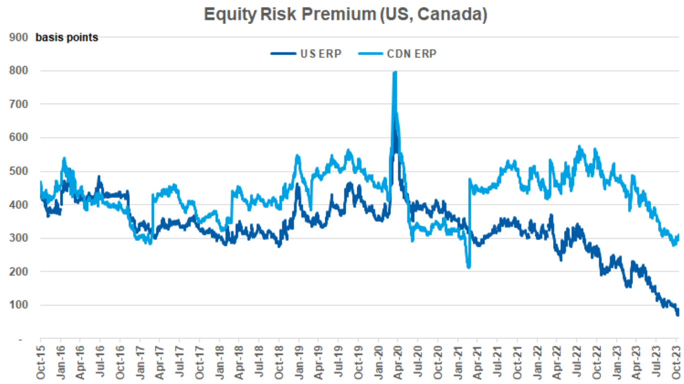
Near-term US Bonds offer superior risk-adjusted returns compared to US Equities: Looking at S&P500 earnings yield in Chart 5 (gold bar), over these years investors were consistently rewarded by assuming additional risk with lower-quality fixed income investments and with US equities. Indeed, for much of the post-crisis period, high yield delivered total yields that were multiples of investment grade fixed income or T-Bills, while even equity dividend yields outpaced T-Bills. Today, those yield advantages have diminished for US Equities compared to each category of bonds in Chart 5.

Another way of showing the relative valuation case for US bonds over US stocks is the equity risk premium, shown in Chart 6. The equity risk premium represents the additional compensation investors receive from equities (in form of their earnings stream) over US Treasuries (in form of their yield stream). A higher equity risk premium indicates greater compensation for assuming equity risk.

We believe that current levels for the S&P 500's equity risk premium are quite unattractive, particularly assuming earnings risks. To become more attractive, the equity risk premium would likely need to jump to at least 300 basis points, approximately three times current levels, the approximate average of the post-crisis period. As shown in Chart 6, the S&P500's equity risk premium has been declining since the beginning of 2022 as inflation and interest rates began to rise.

By comparison, the Canadian equity risk premium is today at a reasonable 300 basis points above 10-year Government of Canada bonds (Chart 6, light blue line). While there is less of a relative valuation case in Canada vis-à-vis stocks versus bonds, we have a positive outlook for Canadian government and investment grade fixed income.

Chart 6. Equity Risk Premium US Equities, Canadian Equities



Source: Bloomberg as of Oct 18/23. Equity Risk Premium calculation for both S&P500 Index and S&P/TSX Composite Index = Forward Earnings Yield (%) less 10-Year Treasury Yield (%). Past performance is no guarantee of future performance, and you cannot invest directly in an index.

Today, Canada's equity risk premium sits above 300 basis points, the USs has fallen below 100 basis points. We suspect the historical Canada-US spread reflects:

- Idiosyncratic Canadian economic risk related to the housing market and Canadian bank earnings, especially now as the policy rate in Canada sits at 5%, further tightening financial conditions.
- Decarbonization efforts, coupled with the uncertainty around the long-term profitability of oil and gas investments.
- Investor preferences for the growth style and the technology sector over financials and commodity-related positioning, reflecting a potential end to interest rate hikes.

Approaching the end of the rate hiking cycle, leading to a potential tailwind for fixed income investing

While interest rates may remain higher for longer, we anticipate we have approached the end of the current interest rate-hiking cycle in the US and in Canada. Historically, the last rate hike has closely corresponded to a peak in the 10-year treasury yield. As such, bond investors may face lower likelihood of rising yields (and potential capital losses) relative to stable or falling yields (and potential capital appreciation).

As shown in Table 2, US Treasury yields have on averaged peaked 1.3 months before the last Fed rate hike. While we do not have certainty on the timing of the last Fed rate hike, the timing has come closer in recent months, with Fed officials recently pointing to the tightening factor from higher longer-term rates.

Table 2. The Last Fed Rate Hike May Signal the Peak In the 10-Year Treasury Yield

Months between the last rate hike and...		
Date of Last Hike	**The Peak in the 10-Year US Treasury Yield**	**The Trough in the 2-Year/10-Year Treasury Slope**
March-80	-1	-1
May-81	4	3
May-89	-3	-2
February-95	-3	-2
May-00	-4	-2
June-06	0	5
December-18	-2	8
Average	**-1.3**	**1.3**

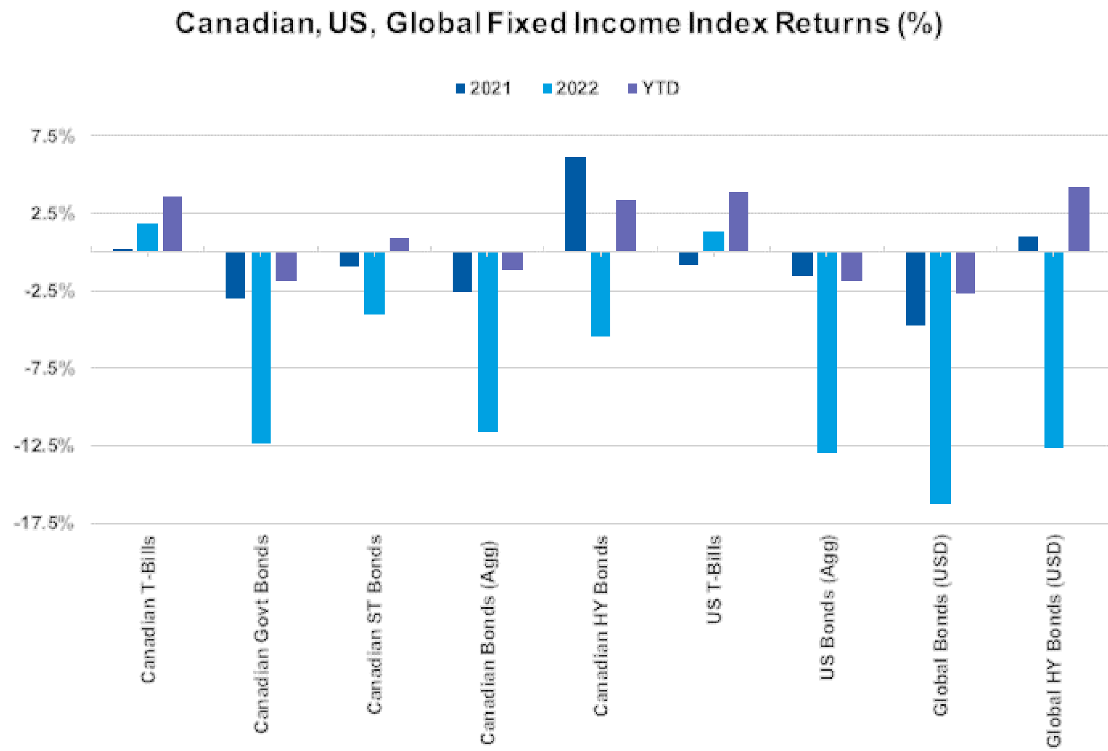
Source: BCA Research Inc.

For Canada, we believe that the Bank of Canada has already made its last interest rate hike and is likely to keep the policy rate steady for the rest of 2023. Our economists expect a full 1.00% of interest rate cuts from the Bank of Canada in 2024, starting in the second quarter. This backdrop provides the potential for capital gains, should rates fade lower in 2024, following MS & Co.'s forecasts

A Word on the Current Bond Bear Market

While the rising yields across the bond universe have improved the current return profile for fixed income investors, it has also come with significant capital losses over the last two and a half years. As shown below in Chart 7, fixed income experienced steep declines in 2021 and 2022, as global central banks hiked rates at the quickest pace since the 1980s. While fixed income's 2023 performance has improved, bond investors may experience a third consecutive year of unrealized losses. We point out that the losses are because, barring any defaults or calls, a bond's lifetime total return is usually close to its initial yield to maturity. Unrealized losses become actual losses in the event that a bond is sold for less than it the initial purchase price.

Chart 7. Canadian, US, Global Fixed Income Index Returns (%)



Source: Bloomberg as of Oct 18/23, all data is in local currency.

Three consecutive years of unrealized losses in bonds would be quite rare. In fact, over its 250-year history, the US Treasury bond market has never experienced three consecutive years of losses. At 28 months, this bear market represents one of the longest in history, as shown in the first row of Table 3, compared to the historical average length of 18 months.

Table 3. History of US Treasury Bond Bear Markets

Date of Market Peak	Date of Market Trough	Peak to Trough Performance	Recovery One Year from Trough	Duration of Bear Market (months)
July 31, 2020	**October 31, 2022**	**-24.7%**	**0.0%**	**28**
June 30, 1860	May 31,1861	**-18.7%**	32.4%	12
May 31, 1835	Dec 31, 1839	**-16.1%**	19.0%	56
June 30, 1979	February 29, 1980	**-15.8%**	8.2%	9
May 31, 1931	January 31, 1932	**-15.4%**	18.5%	9
June 30, 1980	September 30, 1981	**-14.6%**	43.1%	16
Sept 30, 1833	Mar 31, 1834	**-13.7%**	16.5%	7
May 31, 1811	Mar 31, 1813	**-11.3%**	6.8%	23
February 28, 1987	September 30, 1987	**-10.5%**	14.7%	8
October 31, 1993	November 30, 1994	**-10.2%**	25.1%	14
July 31, 2012	December 31, 2013	**-10.1%**	10.8%	18
Average	**October 31, 2022**	**-14.6%**	**17.7%**	**18**

Source: Bloomberg as of Oct 18/23, all data is in local currency.

Where Could We Be Wrong on Our Outlook for Fixed Income?

Potentially, we may have an extended period of elevated inflation, driven by sticky service costs, commodity inflation, and persistent economic growth. That background would likely extend high rates and delay any return to more accommodative monetary policy. As a result, capital appreciation opportunities for fixed income would become more limited, but investors would likely benefit from the absolute value presented in the form of higher yields.

But current financial conditions are relatively tight and are likely to tighten further over the near-term, which should limit the need for further interest rate hikes. At the time of writing, both US and Canadian Government 10-year Bond yields had risen by 70 to 100 basis points over a short six-week period.

The US economy still appears resilient, but it is likely that the lagged effects of the Fed's tightening cycle have yet to fully impact the economy. The Canadian economy is arguably already showing signs of a soft-landing recession, given a higher degree of interest rate sensitivity compared to the US economy. giving us some degree of comfort, we are at the end of this rate hiking cycle.

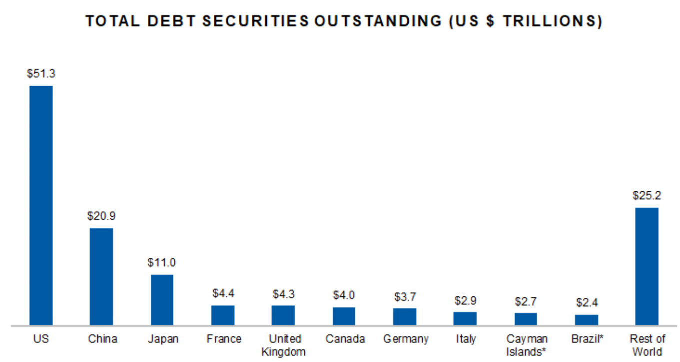
Section Three: Fixed Income Portfolio Management Considerations

By far, the most important determinant of risk exposures and investment outcomes is the asset allocation decision—the long-term allocation between various asset classes such as cash, fixed income, equities, and alternatives in the portfolio. This very important decision should be made with your Morgan Stanley Wealth Management Canada Financial Advisor, who will take into consideration your investment objectives, risk tolerance and capacity for risk-taking, liquidity needs and any unique circumstances after a lengthy discussion period. Fixed income investing may involve nuances that depend on client-specific situations.

Domestic versus International Bonds: Currency Risk vs Diversification Opportunities

According to the Bank of International Settlements (BIS), at the end of 2022 the total market value of global bonds was more than US $133 trillion, made up mostly of government debt but also including public and private corporate debt outstanding. The US debt market made up about 40% of the global bond market in 2022, while Canada represented about 4% (see chart 8).

Chart 8. A Diverse Global Bond Market



Source: Bank for International Settlements, data as of 3Q 2022

For US and Canadian bond investors, the global bond market offers an opportunity to diversify Canadian or US bond exposures, with the additional potential for higher returns. The additional diversification from International Bonds may come from exploiting divergent central bank policies.

However, currency hedging is an important consideration for International Bonds. Currency hedging back to one's home currency has historically provided investors with the desired return stream without it being subject to excess volatility from movements in currency markets. As such, currency-hedged international bond returns experienced a lower annualized rate of volatility. Many international bond managers aim to hedge the currency exposure back to the home country to reduce excess volatility.

Public versus Private Fixed Income (Liquidity Risk)

While this article has largely covered public fixed income (government and corporate bonds), the private debt market has become a growing source of potential income and growth for fixed income investors. The private credit market has grown to over US $1.4 trillion today, from US $250 billion in 2010, according to data provider Preqin. This expansion in private credit funds has in part been driven by the secular decline in interest rates over the last few decades—and due to the regulatory environment for traditional banks, which has prompted higher capital requirements. Investors have increasingly added private credit to their portfolios as a potentially higher-yielding alternative to traditional fixed-income strategies.

Unlike most bank loans, private credit solutions can be tailored to meet borrowers needs in terms of size, type, or timing of transactions. Like bank loans, however, most private credit lending takes the form of floating-rate notes, providing real-time interest rate protection, compared to investments like fixed-rate bonds. We expect the demand for private credit to continue to be strong, especially for high-growth, cash-intensive portfolio companies.

Private credit covers an array of strategies that span the capital structure and borrower type. These range from senior secured loans for blue-chip corporate borrowers, to junior unsecured credit

for financing new building construction, to loans against specialized assets, such as railcars and airplanes, or contractual revenue streams like royalties and subscription services; or to distressed situations.

When compared to public fixed income, private credit investments do not offer the same degree of liquidity, if any at all, which needs to be the primary consideration for investors when deciding on how much public versus private credit to include in the portfolio. In addition to potentially higher income with private credit investing, there are diversification benefits as private credit tends to be less correlated to public equities and bonds.

Interest Rate Risk and Credit Risk

Both interest rate risk, the risk that interest rates rise, and credit risk, the risk that the bond may default, can affect bond yields and therefore, the price of the bond. At Morgan Stanley, we may consider adding/removing varying degrees of interest rate risk and/or credit risk to portfolios at different points in the economic and market cycle.

Interest rate risk, also referred to as duration risk, is the possibility that the market value of a nominal bond might fall due to a rise in prevailing nominal interest rates, which may be caused by rising inflation and/or rising real interest rates. Generally, all fixed income securities are susceptible to fluctuations in interest rates, and there is an inverse relationship between a bond's price and interest rate movements. The price of a bond with a long-dated maturity will, all else being equal, be more sensitive to changes in interest rates compared to a bond with a short-dated maturity.

Credit risk, also referred to as default risk, is the risk that an issuer of a bond might be unable to pay interest and/or principal on a timely basis. Rating agencies evaluate quantitative and qualitative factors to gauge an issuer's likelihood of default and classifies them as either investment grade or below investment grade (high yield). Investment grade bonds generally provide the highest degree of principal and interest protection and have a lower probability of default. Below investment grade bonds (high yield) are considered risky investments and tend to pay higher yields than their investment grade counterparts.

Morgan Stanley Wealth Management Portfolio Positioning – Tactically Overweight Fixed Income

From a tactical asset allocation perspective, Morgan Stanley Wealth Management is overweight fixed income relative to our blended benchmarks. Our positive view of fixed income is based on the belief that a "higher-for-longer" regime creates opportunities to achieve better risk-adjusted returns through the income stream, with the potential for capital gains if rates fade in 2024, according to MS & Co.'s forecasts. With interest rates at or near cycle highs, risk/reward is asymmetrical, while coupons of 4% to 7% are among the best available in over 15 years. We prefer investment grade versus high yield bonds today, believing that credit spreads will likely face upward pressure amid tight financial conditions and slowing macro growth.

While there may be an opportunity to rotate into high yield in the future, we would first look for wider credit spreads as a sign of a greater margin of safety and opportunity for capital appreciation.

In the US, we see favourable opportunities in investment grade corporate credit, and short- and intermediate-term US Treasuries. Within Canada, we believe that investment grade credit remains a decent hold when barbelled with shorter-duration Government of Canada bonds.

Investors may want to consider using dollar-cost averaging and/or a bond-ladder to adjust their fixed income portfolio allocations. Dollar cost averaging can be accomplished with both new monies and rebalancing strategies. By using a bond-ladder strategy, investors may evenly spread out any call dates and final maturities. This may provide some protection in a scenario where interest rates rise further, as money will be continuously redeemed for reinvestment. And, if rates decline, bonds with later final maturities will help to maintain yield profiles for longer, noting that timeframes that are, ideally, tailored to investment objectives.

Please reach out to your Morgan Stanley Wealth Management Canada Financial Advisor with any questions about fixed income investing.

Disclosure Section

The Global Investment Committee (GIC) is a group of seasoned investment professionals from Morgan Stanley & Co. and Morgan Stanley Wealth Management who meet regularly to discuss the global economy and markets. The committee determines the investment outlook that guides our advice to clients. They continually monitor developing economic and market conditions, review tactical outlooks and recommend asset allocation model weightings, as well as produce a suite of strategy, analysis, commentary, portfolio positioning suggestions and other reports and broadcasts.

Index Definitions

S&P 500 Index: The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks.

S&P/TSX Composite Index: The S&P/Toronto Stock Exchange Composite Index is a capitalization-weighted index designed to measure market activity of stocks listed on the TSX. The index was developed with a base level of 1000 as of 1975.

Risk Considerations

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

The value of fixed income securities will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer.

High yield bonds (bonds rated below investment grade) may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk, price volatility, and limited liquidity in the secondary market. High yield bonds should comprise only a limited portion of a balanced portfolio.

Companies paying dividends can reduce or cut payouts at any time.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

Investing in small- to medium-sized companies entails special risks, such as limited product lines, markets and financial resources, and greater volatility than securities of larger, more established companies.

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies. Technology stocks may be especially volatile. Risks applicable to companies in the energy and natural resources sectors include commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Health care sector stocks are subject to government regulation, as well as government approval of products and services, which can significantly impact price and availability, and which can also be significantly affected by rapid obsolescence and patent expirations.

The indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

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