



Back to Normal

June 2021 | Mikhial Pasic, CFA

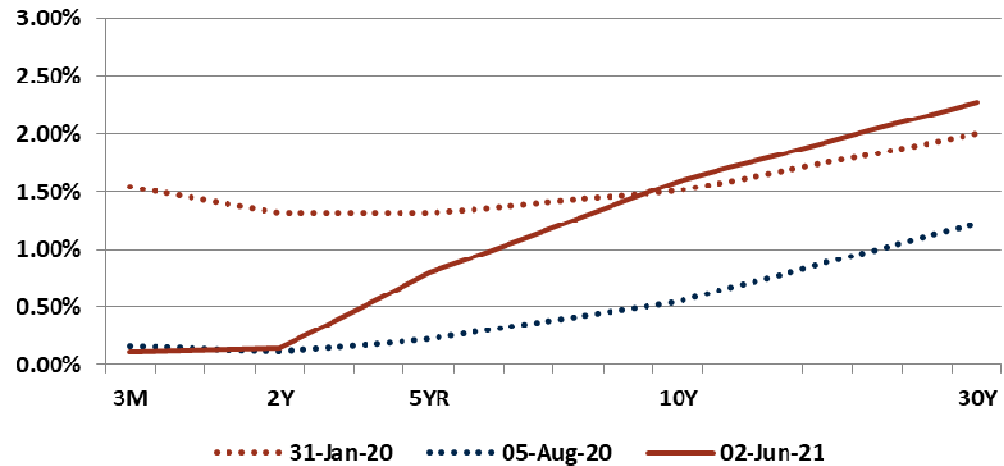


Wealth Management
Dominion Securities

Longer-Term Yields have Unwound the COVID Dip

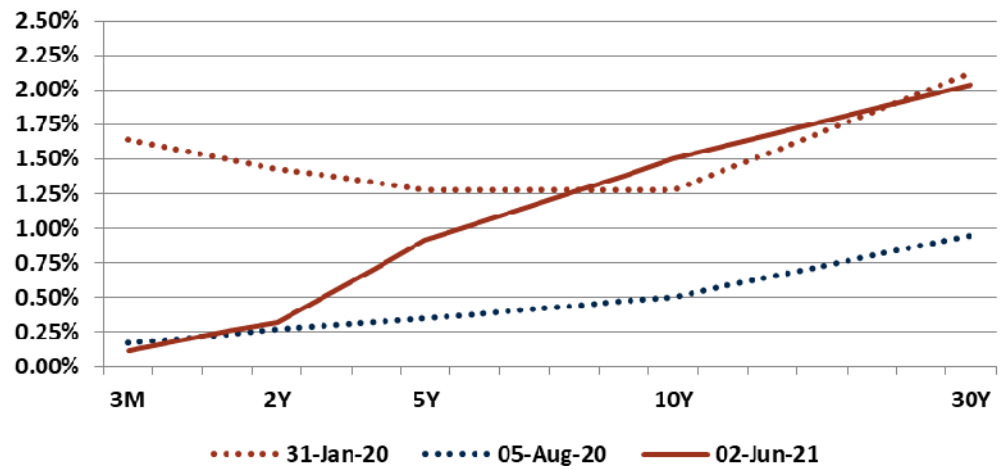
US Government Bond

US Treasury Curve Evolution



Government of Canada Bonds

Government of Canada Curve Evolution



Source: Bloomberg, RBC DS



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Inflation Expectations have Increased



Source: Bloomberg

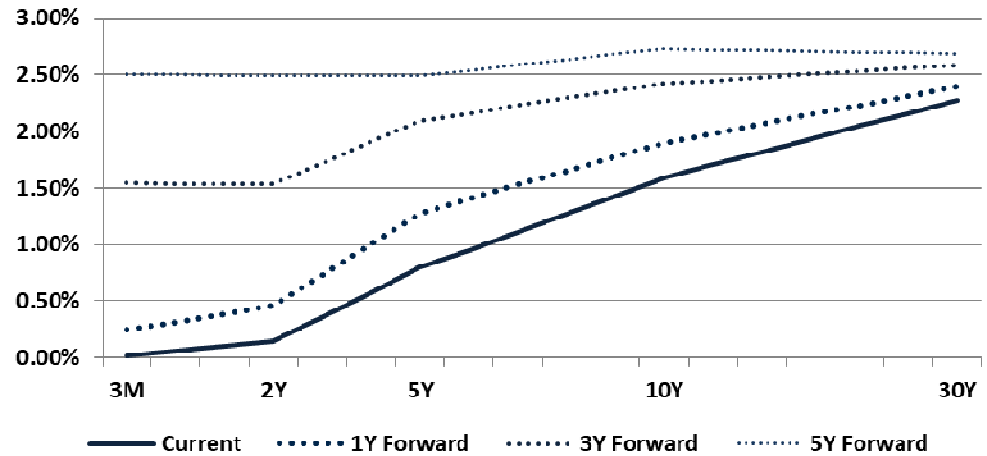


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A Steep Yield Curve = Expectations of Higher Rates

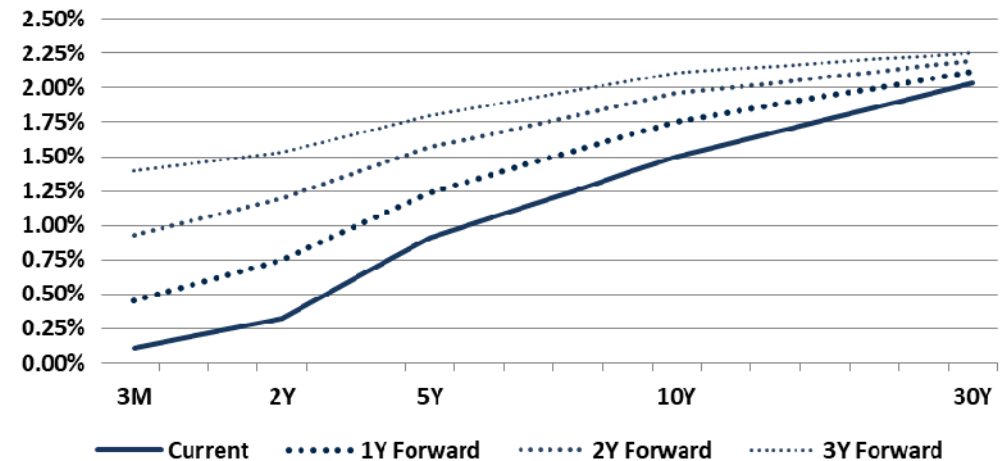
US Government Bond

Market Implied Path of US Treasury Yields



Government of Canada Bonds

Market Implied Path of GoC Bond Yields



Source: Bloomberg, RBC DS



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Meanwhile, Compensation of Credit Risk has Fallen

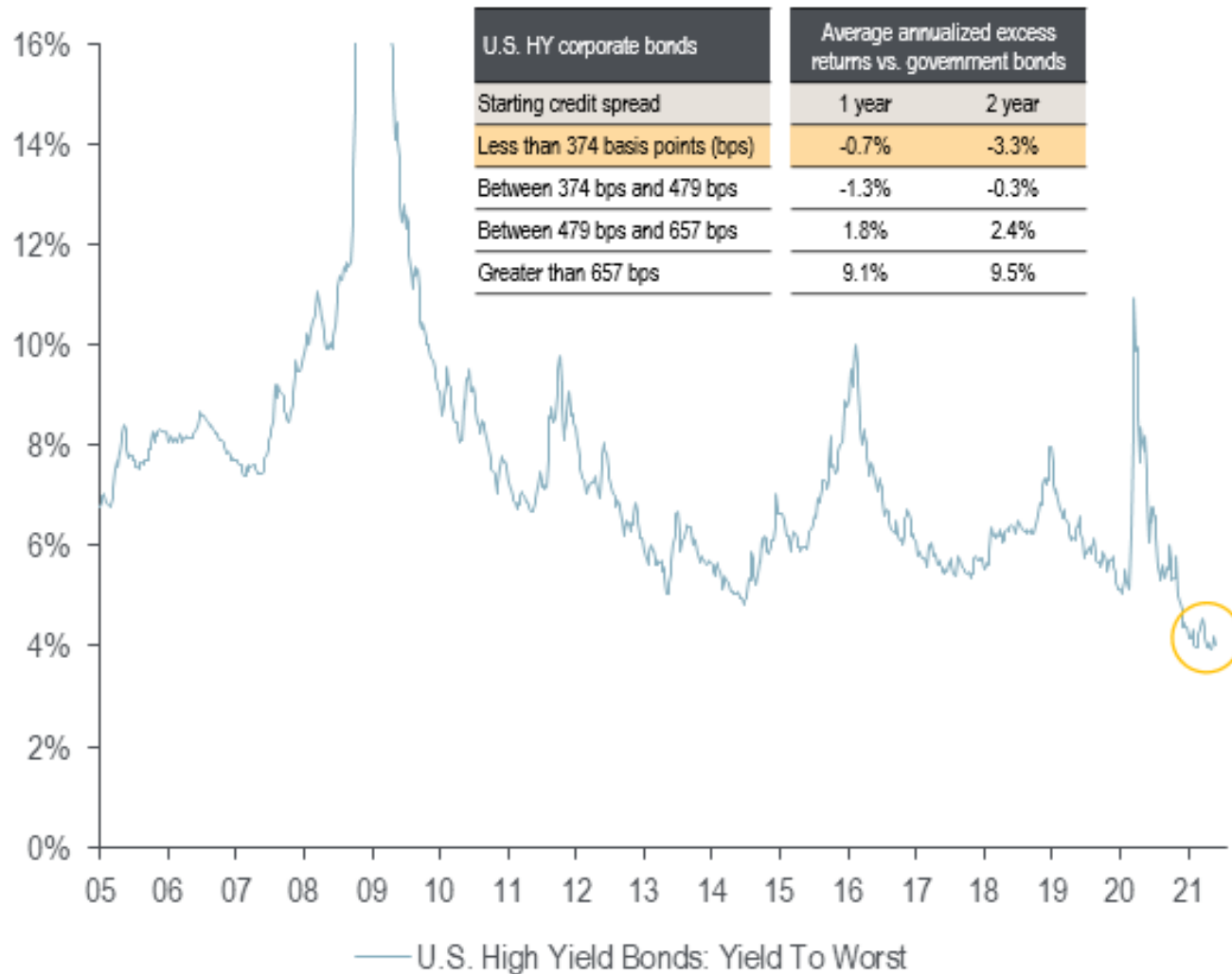


Source: Bloomberg



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The Risk When Credit Spreads are Narrow

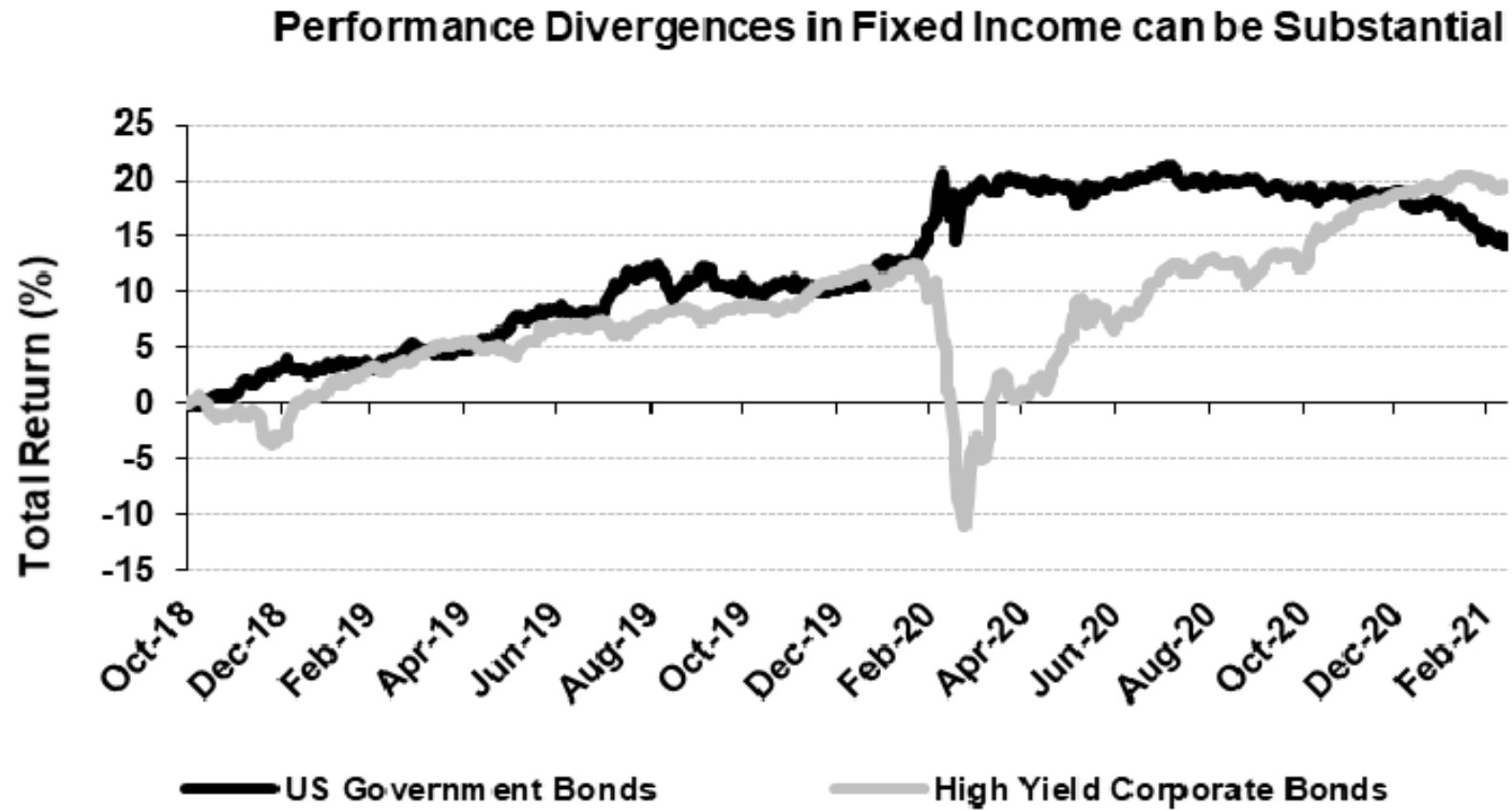


Source: Bloomberg



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Why Take More Risk for This?



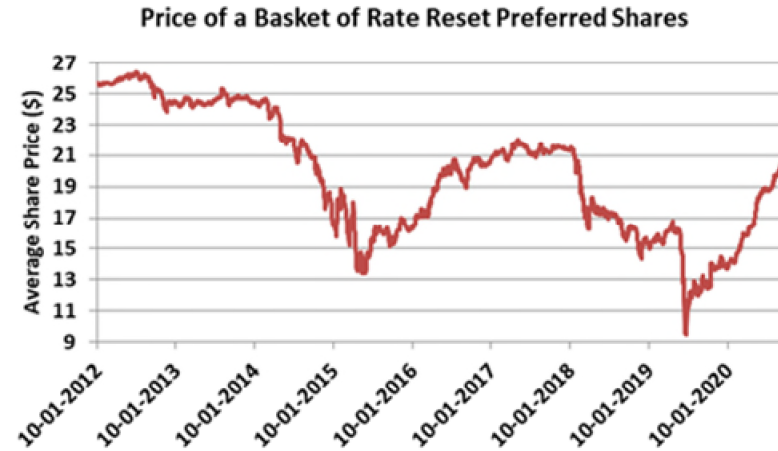
Source: Bloomberg, RBC DS



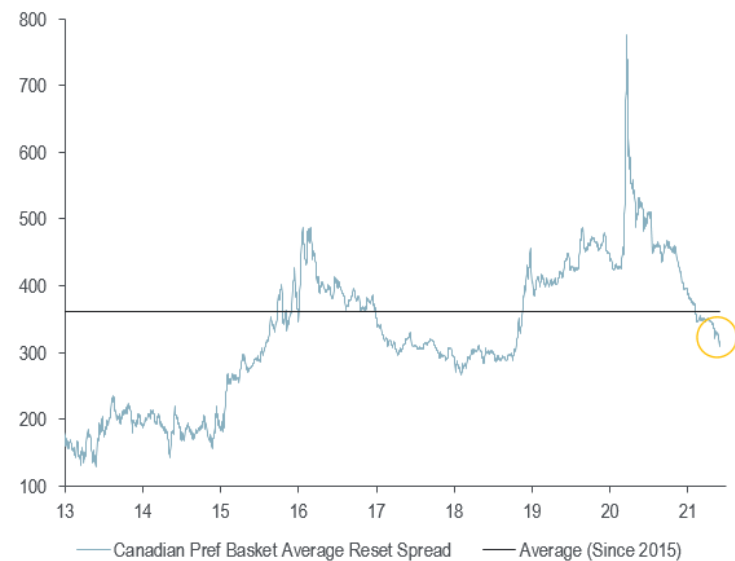
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Preferred Shares: Normalized

Rate Reset Prices



Yield Pick-Up vs 5Y Government Bond



Source: Bloomberg, RBC DS



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Preferred Shares: Back to Trend Line Return



Source: Bloomberg



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Preferred Shares: A 13-Year Period with 0 Return



Source: Bloomberg, RBC DS



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Preferred Shares: Followed by a 50% 1-Year Return

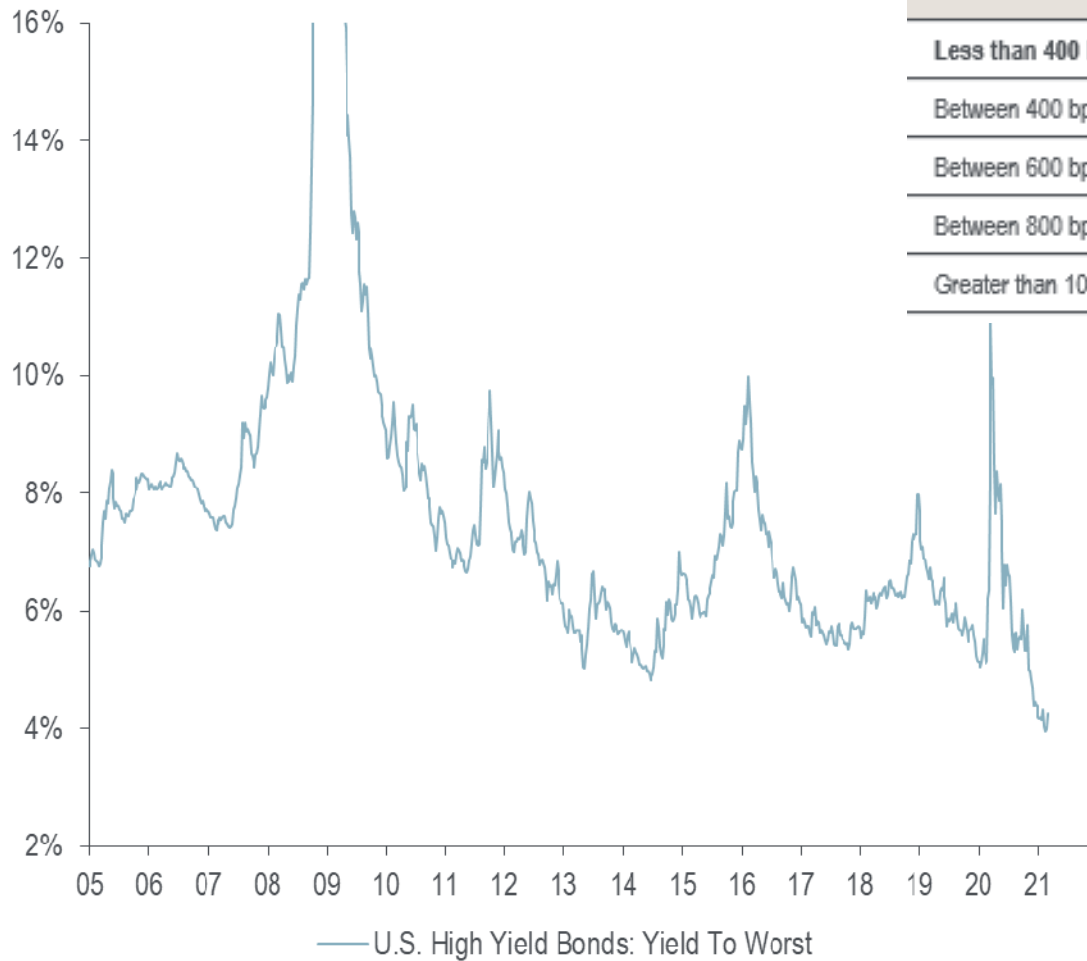


Source: Bloomberg



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Credit Risk versus Equity Risk



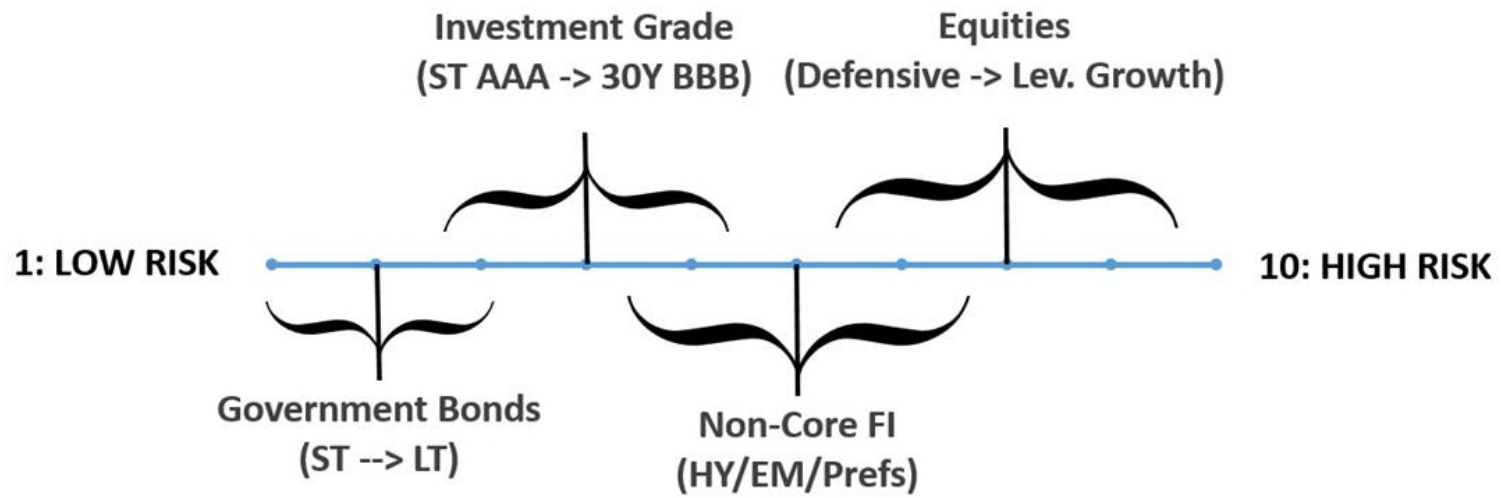
U.S. HY credit spread range	Average forward annualized S&P 500 relative to HY corpor
	1 year
Less than 400 bps (bps)	8.3%
Between 400 bps and 600 bps	5.5%
Between 600 bps and 800 bps	-4.3%
Between 800 bps and 1000 bps	-11.8%
Greater than 1000 bps	-16.2%

Source: Bloomberg, RBC DS



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What it Means on the Continuum of Risk



Source: RBC DS



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Thank you

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