

WHY CHOOSE A BOND FUND OVER A GIC?

During times of market volatility, the natural tendency for investors is to shift their mindset from capital growth to capital preservation. Often, capital preservation comes in the form of cash or cash alternatives such as GICs. GICs can be appealing because of their guaranteed nature. What most investors pay little attention to is that peace of mind often comes at a cost – an *opportunity cost*.

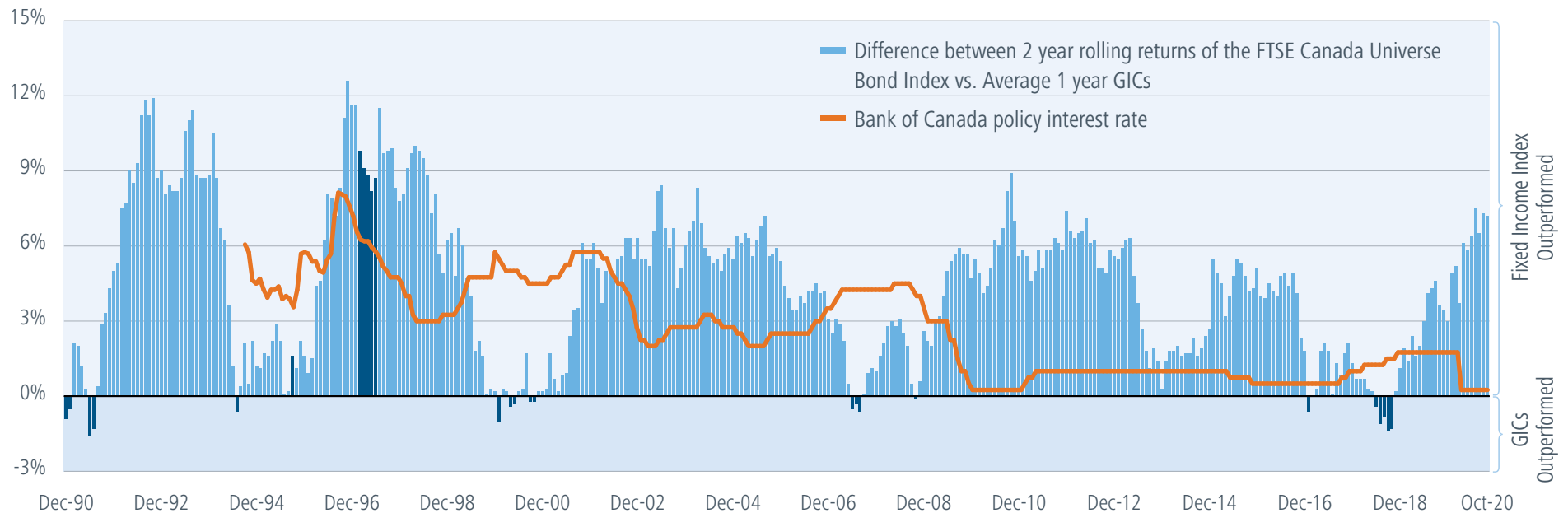
With GICs, you may be locking in a return that is lower than many other relatively low-risk investments. There is another option that can help preserve capital, provide income and outperform GICs in the long run: a diversified portfolio of high-quality bonds.

Here's why:

BONDS HAVE OUTPERFORMED GICs OVER THE LONG TERM

Bond Returns > GIC Returns

Difference between rolling 2yr excess total return of FTSE Canada Universe Bond vs. Average 1Y GICs

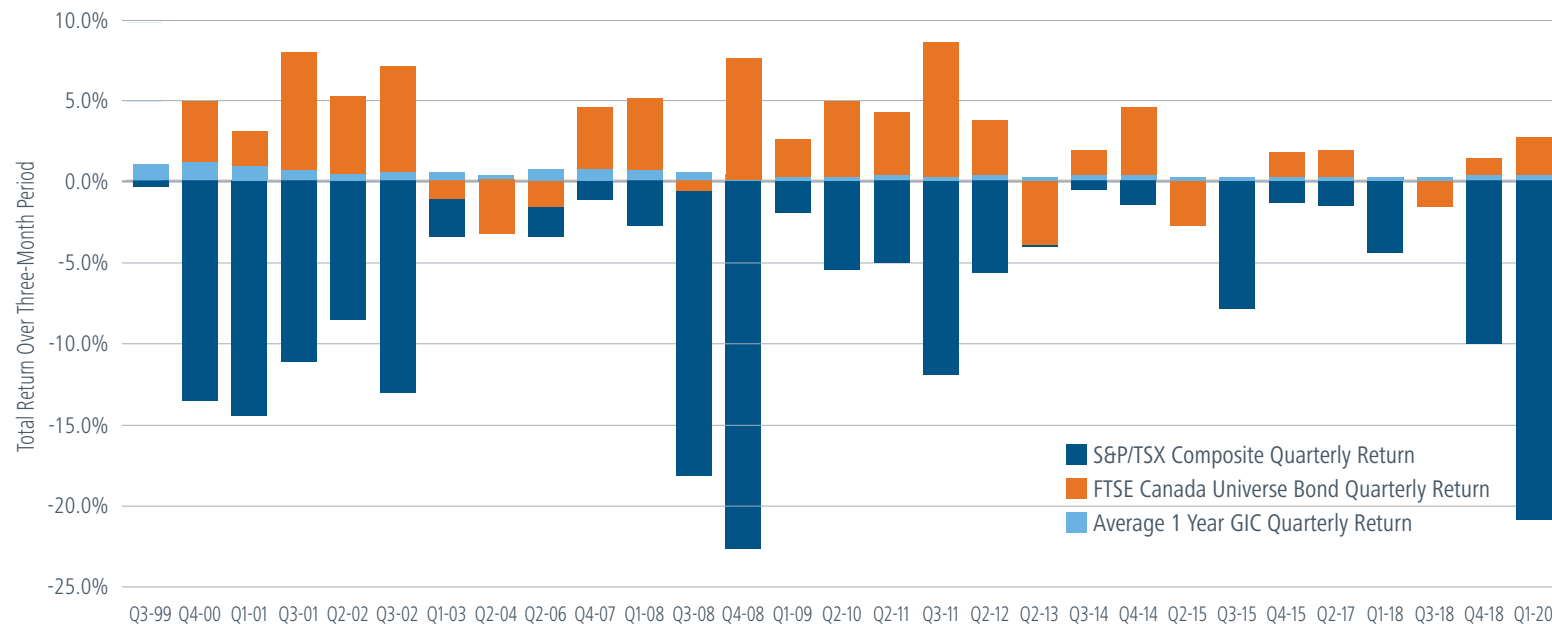


Source: Bloomberg, Morningstar Direct. As of October 31, 2020, the rolling return data in this chart has been lagged to reflect the start date of the 2Y rolling period so it aligns with the Bank of Canada policy rate at that time.

GICs NEVER GO DOWN, BUT THEY NEVER GO UP EITHER

When markets are stressed, bonds have historically counterbalanced equity volatility in a portfolio. In hard times, bonds can serve as shock absorbers for an investor's portfolio. GICs may play a similar role, but as the data suggests, they don't do it as well as bonds. A diversified bond portfolio can be a much more effective cushion during times of equity market volatility than GICs.

Fixed Income and GIC Returns During Equity Market Volatility



In most quarterly periods when equities were down, the total return on a broad basket of bonds was positive – and significantly more positive than the interest income earned on a GIC during that period.

Source: Morningstar Direct, as of October 31, 2020

Contact your financial advisor to learn more about Mackenzie's fixed income funds.

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