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It's been a very challenging year in 2022 for bond investors. When we look at various global indices for bonds whether in Canada, the US, Europe or Asia, bond indices are down anywhere between minus 10 and minus 20 percent. The ride in 2022 has been very challenging for bond investors, but that's what's happened in the past, we need to be looking forward. And when we look forward, we need to ask ourselves 3 simple questions related to the bond opportunity today:

Question number 1, has covid policies structurally changed the underlying economy? Examples being supply chains or employment. We don't think so. We think in the short term they have created imbalances, but we believe we revert back to some sense of normalcy that we've experienced previous to covid.

Question number 2, do we think that higher interest rates will impact inflation? We believe yes. We believe that we are seeing the early signs of the amount of interest rates increases since March impacting the global economy.

And then last but not least, have the odds of a recession increased in 2022? We believe yes. Various measures that we look at, one being the global PMIs – it's a gauge of manufacturing in countries across the world – this is trending to a neutral position. Leading economic indicators which are measures that lead an economy are also pointing to the odds of a recession increasing in early 2023. So when we ask ourselves these questions, these three questions, we believe that higher interest rates will slow down inflation, but as a result of higher interest rates, the global economy is also slowing. And typically, when the global economy slows or enters a recession, bond yields fall down. So that very same dynamic that led to negative bond prices where we've seen interest rates increase and bond prices come down, we believe moving forward, as interest rates come down, bond prices come back up. And we believe going into 2023, that the bond opportunities will be different than the experiences of 2022.

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Manulife Investment Management

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