[The Manulife Investment Management logo appears on the screen]

The rise in interest rates has renewed interest in guaranteed investment certificates, or GICs. But by choosing GICs versus bonds, investors could be missing out on a rare opportunity in today's fixed income markets.

The rising rate environment has created an opportunity for bond investors today: discount bonds. Since the beginning of the latest rate-hiking cycle in March 2022, the percentage of bonds trading at a discount has more than doubled in both Canada and the United States, with the vast majority of the bond universe in those markets made up of discount bonds.

For active managers, this means a larger universe of bonds increasing in value, resulting in capital gains. Those capital gains have the added benefit of being more tax efficient than interest – something that GICs can't provide.

While GIC investors today may benefit from the current interest rate environment, they risk getting locked in at current rates and potentially missing out on the long-term opportunity that discount bonds can offer as rates eventually fall lower.

GICs can have a place in certain investor portfolios, but for those seeking tax efficiency and the potential for price appreciation, we believe that active bond funds have a lot more upside to offer.

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