

Russell Update

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Bonds – do you want to be a buyer or a seller in today’s market?

Kelley Fairbank Director, Strategic Advice, Russell Investments Canada Limited

Do you want to be a buyer or a seller at a time when corporate bond prices are low and their yields are high relative to historical levels? First, let’s take a hard look at historical bond market data.

Let history be your guide

US and Canadian investment grade corporate bond yields are at *historic* highs, versus government guaranteed bonds, that defy imagination. When I saw the charts below, my jaw dropped, as these kinds of extremes do not come often in the markets and tend to signal a time to buy, rather than sell for the patient investor.

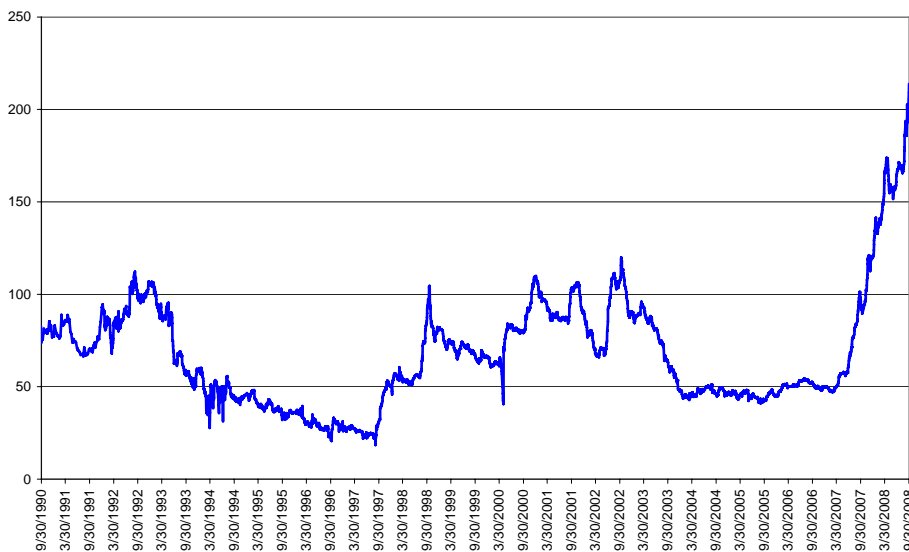
Figure 1: U.S. Corporate Investment Grade Yield* vs. U.S. Treasury Bonds



Source: Lehman Live

*Option adjusted spreads

Figure 2: Canadian Corporate Investment Grade* vs. Government of Canada Bonds



Source: PC Bond

*Option adjusted spreads

Positioned for growth

Whether you own a Russell Fixed Income portfolio, the Russell Core Plus Fixed Income Pool or a Balanced Portfolio, know that the preponderance of your investments are now at these historically high yields. As history keeps teaching us, corporate bond yields are likely to return to normal levels, creating significant fixed income appreciation for those who understand the boom and bust nature of the capital markets *and* stay invested. Active management may further increase results in tumultuous markets, through careful security selection.

It is helpful to understand how Russell's fixed income portfolios are well-positioned to profit from these unusual yield spreads. The table below shows the proportionate allocations to corporate bonds among Russell's various fixed income funds, which are also part of diversified portfolios.

Russell Fixed Income Portfolios	Corporate Allocation
Russell Fixed Income Fund	38%
Russell Fixed Income Pool	36%
Russell Core Plus Fixed Income Pool	25%

These allocations allow investors, whether directly invested in the fixed income funds or through Russell's balanced portfolios, to participate in the rally that would accompany a narrowing of these historically high yield spreads. While we do not know when yield spreads may narrow generating price appreciation, markets rarely remain at historic extremes for very long. Even if yield spreads do not narrow right away, the unusually high yields provide higher bond returns. Therefore, maintaining your current position is the best way to make sure that you are rewarded for appreciation in the corporate bond markets, as markets move away from the bust mentality that has driven bond yields so high.

For more information please contact your client representative at 1-888-509-1792 or canada@russell.com.

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