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Q. (page 48, lines 1299-1301) Please confirm that if long-Canada bond yields rise from their current level (about 4.5%) to the range of 5.0-5.5% over the next 1, 3, 5, or 10 years, then the rate of return that investors in these long-term Canada bonds will experience over these corresponding periods will not be as high as 5.0-5.5% but, rather, will indeed be less than 4.5%. If Ms. McShane cannot confirm this, then please explain how investors can possibly earn bond returns higher than the existing yield to maturity over any subsequent period when yields rise and bond prices fall.

A. For investors who purchase 30-year bonds at 4.5% and sell them when interest rates are at 5.0-5.5%, the return will be less than the yield to maturity. If yields rise to 5.0-5.5% and remain at that level, investors who invest at 5.0-5.5% will achieve returns of 5.0-5.5%. The key point is that the average achieved bond returns of 7.8% shown in Table 8 overstate a reasonable forecast of bond returns looking forward.