

Israel Bonds 2010

By Dr. Sherry Cooper

Finally, the clouds are parting. The global recession ended in the second half of last year in response to coordinated action by central banks and fiscal authorities worldwide. The Bank of Canada and the U.S. Federal Reserve aggressively slashed interest rates at an unprecedented pace and took other actions to ease the credit crisis and backstop the banking system. The Obama Administration introduced a massive fiscal stimulus package and pushed the U.S. budget shortfall to a record high. The Canadian government, as well, introduced dramatic fiscal stimulus.

These measures not only put an end to the credit crisis, but also boosted private demand raising the likelihood of a sustained economic recovery. Stocks have rebounded sharply since early last year and interest rates started 2010 at very low levels as inflation remains moderate.

Most investors have retraced only part of the previous losses in their stock and corporate bond portfolios. Government bonds have remained a safe haven, although even these yields are likely to edge higher this year in response to growing federal and provincial (as well as state and local) debt issuance. The yield curve is expected to remain steep, putting the most downside risk on longer-term government bonds, especially in the United States, but also in Canada.

Israel fared better than many other small, open economies in the recent global economic downturn, suffering only a mild recession at the turn of 2009, in contrast to many peers in Europe and Asia. An improved macroeconomic policy framework, coupled with structural reforms, engendered strong growth in 2004-2008 and rendered the economy markedly more resilient to shocks.

As well, Israel suffered no asset-price bubbles and its banking system was trouble free. In August 2009, Israel was the first country to raise interest rates since the crisis began reflecting the resumption in economic growth. Israel's stock market surged 75% last year—a stellar performance by any standard and Israel's

economy is expected to outpace the economies of the G-7 this year as well.

Israel became a net external creditor for the first time in 2008, as foreign assets surpassed foreign liabilities. This is one of several factors lending support to Israel's sovereign rating, including its high per capita income, strong institutions and good governance.

Many financial advisors continue to recommend Israel bonds for the fixed income portion of client

portfolios, particularly for registered accounts such as RRSPs, RRIFs, and the Tax Free Savings Account (TFSA), introduced in Canada in January 2009. The TFSA allows Canadians to invest up to C\$5,000 per year tax free with no tax upon withdrawal. Israel bonds are 100% eligible for

these accounts as well as for retirement accounts (RRSPs) and any unused contributions in these accounts accumulate and may be made anytime in the future.

The current rates on all Israel bonds compare favourably with the extraordinarily low yields on U.S. or Canadian government bonds or GICs of similar maturity. Of particular interest is the re-introduction early this year of the 2-year term Israel bond offering, which bears rates substantially above 2-year government bonds or GICs in Canada or the U.S.

More than just a financial decision, there is the issue of heartfelt support; many of us would like to support the State of Israel. If you believe, as I do, that Israel will never default on its debt, then this is an investment vehicle worth considering.

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