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**Second Quarter Fixed Income Letter to Clients**

US Treasury Bond prices have rallied to strong levels this quarter, and rates have fallen to historically low levels. Currently, the 10-year treasury bond is 0.64% and the 30-year bond is at 1.33%. Amid the pandemic, capital has confidently moved into the Municipal Bond Market. After a volatile March, municipal bond prices started recovering in April in the high-quality segment of the market, with the rebound subsequently extending to bonds in lower ratings categories in June. Municipals continued their rebound alongside the reopening of the domestic economy. The S&P Municipal Bond Index returned 0.78% for the month of June, and the year-to-date total return is 1.97%.

There has been concern over the credit quality of state backed municipal bonds due to the consequences of human behavior, social distancing and government shutdowns as a result of the COVID – 19 pandemic which have reduced consumer spending and wages, resulting in falling sales and income tax revenues. While states will face economic strains, it is important to note that after an 11-year recovery, most state and local governments are in a position of strength. State and local government revenues grew by over 40% since the 2008 financial crisis, and governments have been managing their budgets more prudently according to the consensus among public finance analysts.

We expect supply and demand dynamics to continue to support strength in both the taxable and tax-free US Bond Markets. The attractive relative valuations and performance we are seeing today are likely to prolong strong demand, while July and August have traditionally been strong performance months. However, the potential for a second wave of contagion, the composition of additional fiscal stimulus, and the upcoming presidential election are core uncertainties that we will closely monitor.

We maintain a slightly defensive posture in our bond portfolio allocations where diversification among 100% investment grade bonds is critical. In addition, portfolios should maintain some cash in order to take advantage of opportunities that often present themselves during periods of market turmoil.

*Evan Slater*
*Fixed Income Portfolio Manager*