BH | Beech Hill Advisors

October 2020

Third Quarter Fixed Income Letter to Clients

US Treasury rates were relatively stable in September after a strong July and August. The 2-year ended September at 0.13%, unchanged, the 10-year ended the month at 0.68%, down 2 basis points, and the 30-year ended the month at 1.46%, also down 2 basis points. A highlight during the month of September was the FOMC statement given the Fed's new policy structure presented by Chairman Powell at Jackson Hole. The statement commits the FOMC to maintain the current target range of Fed Funds until full employment and an inflation rate moderately above 2% is reached. In addition, the Fed's stated asset purchases are not only being implemented to assist "smooth market functioning" but added to also "foster accommodative financial conditions". And, the Fed also continues to look for complementary fiscal support in conjunction with their monetary policy.

Tax-exempt, municipal bond prices have remained firm throughout the third quarter. The S&P Municipal Bond Index posted its year-to-date total return at 3.06% through the end of September.

Investor flows into municipal bonds remained net positive but have tapered a bit in the later part of the quarter as valuations became extended and fundamental worries in light of the political theater which seems to be preventing another stimulus bill from getting done prior to the election.

We foresee increased volatility over the next few quarters and anticipate that a less accommodative supply and demand dynamic will most likely act as wind in the market's face in the near term. Ultimately, clarity around the size and scope of more federal stimulus is required to resolve the uncertainty and ease investor concerns. In addition to the fiscal stimulus concerns are, of course, the strong fears of a reemergence of new Covid cases which have been picking up at an increased rate around much of the country, and the election is certainly the other major issue that the market is focused on.

At this point, we are slowly adding to fixed income portfolios while maintaining a bit more cash than usual in order to take advantage of opportunities where we can trade into bonds at higher yields than the recent averages.

Evan Slater
Fixed Income Portfolio Manager