

March 31, 2021

First Quarter Fixed Income Letter to Clients

Intermediate-term & long-term US Treasury yields rose aggressively throughout most the first quarter of 2021. The US Treasury 10-year bond began the year at a yield of 0.93% and ended the first quarter at 1.74% while the long end of the yield curve began the quarter at 1.66% and closed at 2.41%. Strong economic growth brought on by a ramp-up in U.S. vaccinations along with an incredible amount of continued fiscal stimulus has forced the bond market to retreat in the face of the cyclical rotation that is underway. On the other hand, short term yields have remained anchored near zero, supporting equity valuations.

The Fed may be willing to fight rising long-term yields more than they have in past cycles yet regardless of the Fed's ability to control the yield curve we believe inflationary pressures will continue so we currently favor maturities inside 10 years on the yield curve. Additionally, the Fed made it clear that the standard for reassessing its policy stance was not met and that it was too soon to talk about tapering bond purchases while supporting a material improvement in the economic outlook. Thus, it seems clear to us that this reaffirmation of its commitment to be behind the curve on inflation and to wait to see inflation show up in greater strength has helped the Fed regain control of the narrative at this time.

Tax-free municipal bonds struggled throughout the month of February posting their worst month of performance since March 2020. The S&P Municipal Bond Index returned -1.36% led by rising interest rates resulting from improved COVID health statistics, expectations for additional fiscal stimulus, and continued easy monetary policy along with an overall optimistic view on the US economy.

Our portfolio structuring strategy is to slowly add bond positions while maintaining a bit more cash than usual to take advantage of opportunities where we can trade into bonds at higher yields. We maintain a cautious but constructive view on fixed income.

Evan Slater
Fixed Income Portfolio Manager