

December 31, 2021

Fourth Quarter Fixed Income Letter to Clients

The Tax-Free, Municipal Bond market performed relatively strong in the fixed-income sector and helped support the fixed-income portion of investors' portfolios. While interest rates rose during 2021, the Municipal Bond market still ended the year with positive returns. The total return of the S&P Municipal Bond Index was 1.25% and the Bloomberg Municipal High Yield Index returned 7.76%. Both returns do not account for taxable-equivalent yields, which would be more attractive for investors in high tax brackets compared to other fixed-income markets. As a comparison, total returns on taxable fixed-income indexes were largely negative for 2021, with the exception being the Corporate High Yield group.

US Treasury yields traded in a tight range throughout the fourth quarter. The US Treasury 10-year bond began the quarter with a yield of 1.48% and ended at 1.52%; while the 30-year bond i.e., the long-end of the yield curve, began the quarter at around 2.04% and ended at 1.90%.

Tax-free Municipal Bond investors showed strong demand in 2021 as they appeared comfortable with the stable to positive credit outlooks for the market, along with being happy to receive the benefits of the municipal bond market tax exemption, with the 2017 tax bill limiting many other deductions. So overall, the Municipal Bond market had a strong 2021. As we look to 2022, the primary question for the market will be the macro interest rate picture given the Fed's recent aggressive tightening stance due to the tight labor market and supply shortages. And although this has been the market's concern for well over the past year, it's an extremely dynamic process that we will continue to monitor closely.

We continue to maintain a neutral view on the yield curve. However, we are looking for greater volatility in 2022 than in 2021, which shall provide good opportunities to find attractive situations during those more volatile times.

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