



# SHORT MATURITY MUNI AND LOW DURATION TAXABLE

## COMMENTARY – FIRST QUARTER 2020



### MACRO OVERVIEW

Simply put, financial markets were in complete disarray in March as the spread of COVID-19 paralyzed the global economy. US equities had their worst Q1 ever with the S&P and Dow down approximately 20% and 23%, respectively. Sovereign bond yields plummeted across the curve as the risk-off trade intensified throughout the quarter. Yields on the 2, 10, and 30 year UST were lower by 132bps, 125bps, and 106 bps, with 10s and 30s reaching all-time lows. The Fed took drastic measures in March, cutting its benchmark interest rate to zero while simultaneously launching a massive round of quantitative easing that included \$700 billion of asset purchases. Meanwhile, Congress moved quickly to pass a \$2+ trillion coronavirus emergency aid package in an attempt to soften the economic impact on American workers and businesses.

- Oil prices plummeted more than 60% in the quarter after Saudi Arabia and Russia failed to reach an agreement on production, leading to an all-out price war amid weakening demand during the pandemic. Without a diplomatic breakthrough, the price war could continue well into 2020.
- With approximately 311 million people in 41 states being urged to shelter in place and businesses large and small shuttering daily, unemployment rates have exploded. Street estimates for GDP declines in Q2 range from -8% to as much as -40%.
- With a recession looming, the depth and breadth (and ensuing recovery) will depend on 1) the progression and spread of the virus and 2) the fiscal and monetary responses. Have the Fed and Congress done enough, or are additional stimulative measures required?

### MARKET DYNAMICS

As the Federal Funds rate was effectively cut to zero in mid-March, the 2YR Treasury yield declined by more than 125bps, ultimately settling near 0.25% to end the quarter. Yields for similar maturity investment grade corporates and municipals, however, rose meaningfully as virus fears mounted. The Bloomberg Barclays US Aggregate Credit Index widened by approximately 250bps, and the 2YR Muni-to-UST yield ratio exceeded 700% at one point. As it stands now, bond market liquidity has certainly improved as supportive fiscal and monetary policies have been meaningful. Of note, the Federal Reserve will implement secondary and primary market buying programs for IG corporate bonds and ETFs, and municipals for the first time. This support should help markets move forward and allow corporations and local issuers to access funding.

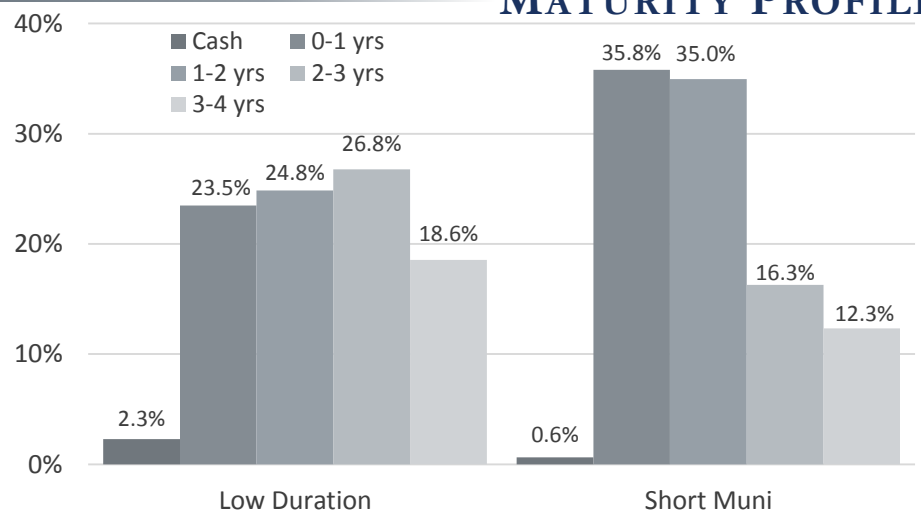
#### LOW DURATION

Duration: 1.87 yrs  
Yield-to-Worst: 1.42 %  
Yield-to-Maturity: 1.43 %  
Maturity: 1.98 yrs

#### SHORT MUNI

Duration: 1.44 yrs  
Yield-to-Worst: 1.38 %  
Yield-to-Maturity: 1.42 %  
Maturity: 1.54 yrs

### MATURITY PROFILE





# SHORT MATURITY MUNI AND LOW DURATION TAXABLE

## COMMENTARY – FIRST QUARTER 2020

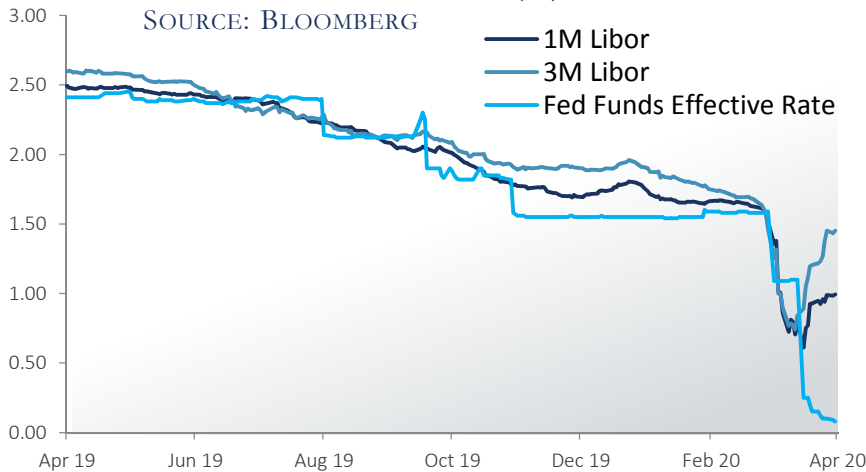


### PERFORMANCE NOTES

As short-term yields in both the municipal and investment grade space rose meaningfully to end the quarter, total returns for March were modestly negative for the strategies. However, both low duration taxable and short maturity municipal portfolio returns were still generally positive for the quarter. The overweight to investment grade corporates in low duration taxable was a detractor versus the benchmark, but risk spreads have recently contracted following the announcement of the Federal Reserve’s buying program. Within short maturity muni the more laddered structure continued to produce a consistent stream of reinvestment cash flows that should provide portfolios the opportunity to reinvest into still very attractive front-end Muni-to-UST ratios.

1M / 3M LIBOR RATES (%)

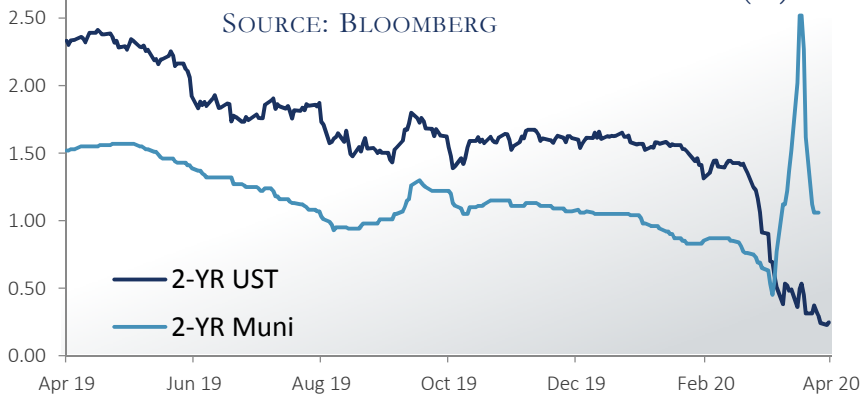
SOURCE: BLOOMBERG



“The Federal Reserve will be implementing market buying programs for IG corporate bonds and ETFs, and municipals for the first time. We believe this will help markets move forward.”

2 YR UST vs 2 YR MUNI YIELDS (%)

SOURCE: BLOOMBERG



### CONTACT US

804.648.3333

WWW.CAPRINBONDS.COM

Media Contact:  
aplotkin@caprinbonds.com

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.