Intermediate Maturity Taxable

Commentary – Fourth Quarter 2020

Macro Overview

With the Presidential election behind us and vaccine administration underway, we willingly bid farewell to 2020 and hope a return to "normal" and continued economic recovery are forthcoming. In Q4, US equities extended their rally off March lows with the S&P and DJIA returning 12% and 11%, respectively. Intermediate and longer-term US Treasury yields drifted marginally higher (10-yr +23bps and 30-yr +19bps) while front-end yields remained anchored near zero, driven by Federal Reserve policy. Markets have priced in generous progress on the vaccine front, however recent spikes in Covid-19 cases globally have reintroduced more stringent restrictions on social gatherings and business operations. Further, logistical challenges with administering the vaccine may hinder the economic recovery as more time will be needed before the virus is under control.

- Q3 GDP rebounded sharply, up 33% after a historic -31% decline in Q2. However, the anticipation is that full-year 2020 GDP will come in near -3%.
- Although inflation breakevens have increased over the last several months, there is still little tangible evidence that inflation will rise to the point where the Fed would need to alter policy in the near-term. US Personal Consumption Expenditure Index is currently at 1.3%, well below inflation targets.
- There was very little change in the December Fed statement. The Committee clarified that asset purchases will continue "until substantial further progress has been made towards the Committee's maximum employment and price stability goals".
- Front-end UST yields will remain near zero, tied to the Fed Funds rate. Fed language from its December meeting signaled no interest rate increases expected through 2023.

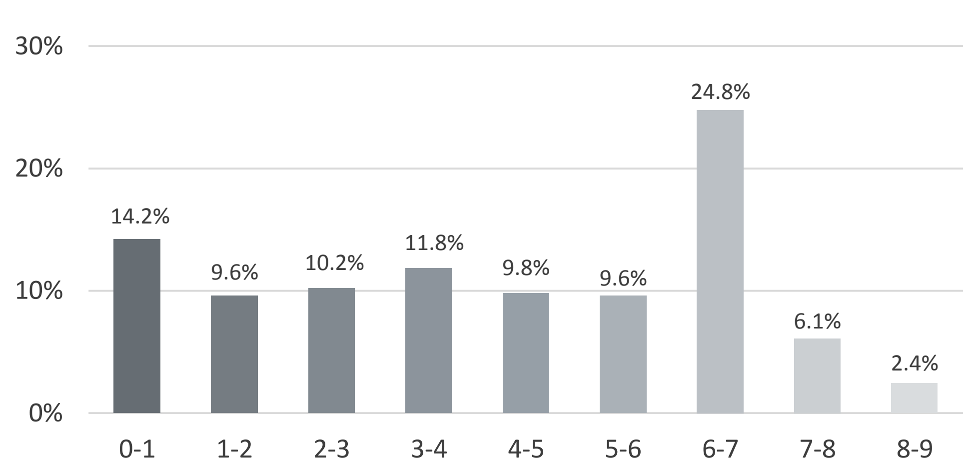
Market Dynamics

Investment Grade credit finished the year with an impressive rally despite the highly partisan election and rising Covid-19 cases across the nation. Spreads were driven tighter by a risk-on sentiment fueled by the expectations of a split congress, further vaccine progress, and the unprecedented fiscal and monetary support still being pumped into the US economy. As we look forward into 2021, we see much of what helped support corporate credit remaining in play - the Federal Reserve is likely to remain very accommodative, vaccine distribution should accelerate as we move through the year, and economic growth will likely begin to rebound by the second half of 2021. We remain a bit cautious though as corporate credit spreads again approach historically tight levels, and uncertainties remain that require thoughtful credit selection.

Composite Characteristics

Duration: 4.25 yrs
Yield-to-Worst: 0.91 %
Yield-to-Maturity: 1.00 %
Maturity: 5.90 yrs

Duration Profile



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Performance Notes

High Grade corporate issuers have generally shown impressive adaptability since the beginning of the pandemic and have controlled costs and managed cash flows without significantly increasing net leverage. These actions, coupled with liquidity support from the Fed, bolstered investor demand for the sector and helped generate notable returns for the quarter and year. The Intermediate Taxable strategy has been well positioned to benefit from this corporate spread tightening, and the strategy's overweight to IG corporate debt also continues to provide incremental yield to portfolios. Our credit selection discipline remains focused on higher quality corporate issuers with sound balance sheets as a way to buffer potential volatility, while maintaining exposure to a sector that should be well supported heading into 2021.

10-YR US Treasury Yield (%)
Source: Bloomberg

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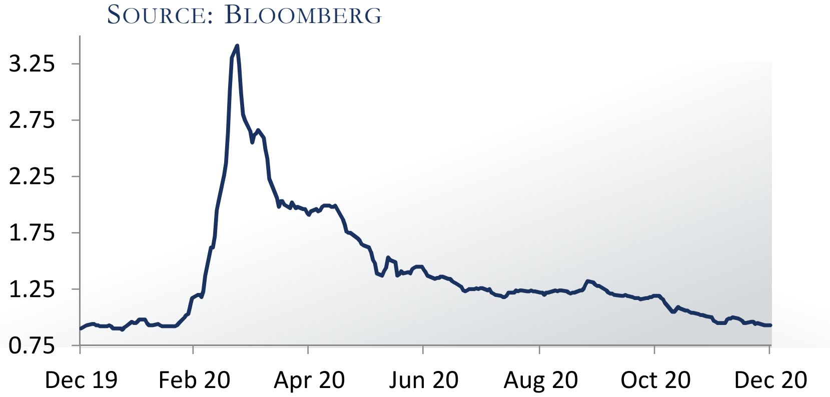
US Credit Index – Spread (%)
Source: Bloomberg



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