Intermediate Maturity Taxable

Commentary – First Quarter 2021

Macro Overview

Passage of a $1.9 trillion stimulus package coupled with the expanding vaccine rollout over the quarter saw optimism build for an emerging domestic economic recovery. Equity indices overcame bouts of volatility, but ultimately both the S&P and Dow recorded all-time highs. Intermediate to longer-term bond yields pushed considerably higher as investors began betting on rising price pressures due to improving demand and continued supply constraints. Yields in this part of the curve were higher by more than 80bps, the largest quarterly increase since Q4 2016. However, the front-end of the curve remained anchored near-zero, driven by accommodative Fed policy. In its March meeting, the Fed reaffirmed the central bank's commitment to support the ongoing recovery and noted that any future changes to policy would be well-telegraphed.

- Indicators of economic activity and employment have turned up recently; although the sectors most adversely affected by the pandemic remain weak, there are still approximately 9.5 million fewer jobs now than a year ago.
- The Fed believes higher inflation expectations will be short lived. FOMC projects a slight increase in PCE during Q2, which they believe will soon decline and run at or below 2% through 2023.
- GDP growth for '21 should be robust as states and businesses reopen and stimulus money works into the economy. Current estimates see 5-6% full-year growth for '21, declining to 4% in '22 and back to 2% in '23.
- Median Fed forecasts continue to show no increase to the Fed Funds Rate through 2023, however, two additional governors moved their initial hike estimates into 2022 from 2023. That now makes 7 out of the 18 officials seeing an earlier hike.

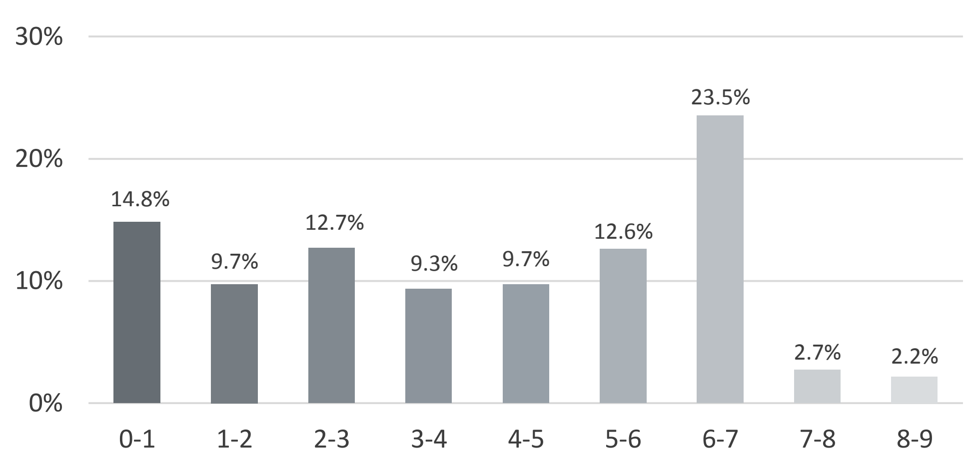
Market Dynamics

Despite the swift move higher in longer-term US Treasury rates over the quarter, Investment Grade credit spreads remained stable, benefiting from the same corporate earnings momentum that fueled new highs in major equity market indices. The Bloomberg Barclays US Aggregate Credit Index ended March at approximately +85bps, only about 5bps higher than the longer-term low set back in early '18. Looking forward, we expect this trend of tighter spreads and stability to remain in place as significant fiscal and monetary stimulus, coupled with continued vaccine distribution have rapidly improved the US growth outlook for the next 12-24 months. With that said, we are carefully watching the infrastructure spending initiatives that the current administration is proposing, given the likelihood of a marked increase in corporate tax rates, as well as more regulatory constraints across various industries.

Composite Characteristics

Duration: 4.21 yrs
Yield-to-Worst: 1.21%
Yield-to-Maturity: 1.28%
Maturity: 5.82 yrs

Duration Profile



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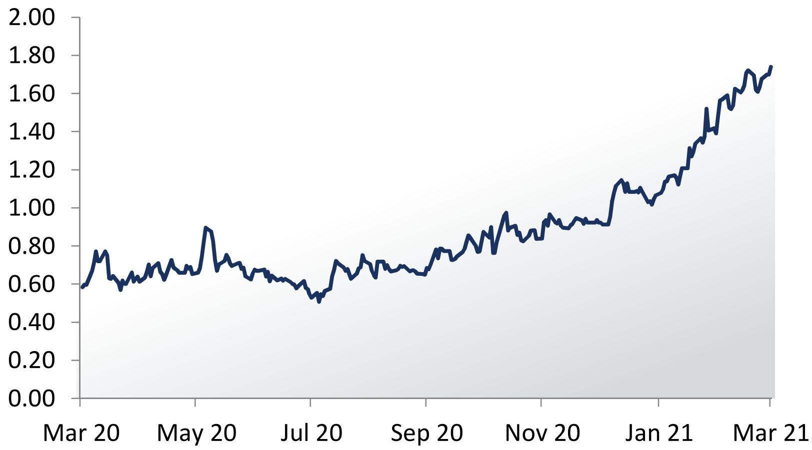
Performance Notes

A notable steepening of the yield curve occurred over the first three months of 2021. Market participants weighed a Federal Reserve committed to keeping short-term interest rates low for the foreseeable future versus the unprecedented Federal stimulus that should help boost growth with possibly some inflation. As a result, intermediate and longer-term interest rates rose and led to weaker returns for the strategy. Despite this near-term movement, we see the strategy well positioned to take advantage of more attractive income opportunities in positions from 5-10 years, as our outlook does not see a structural shift towards higher long-term inflation after pandemic-related supply constraints ease and stimulus wanes.

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

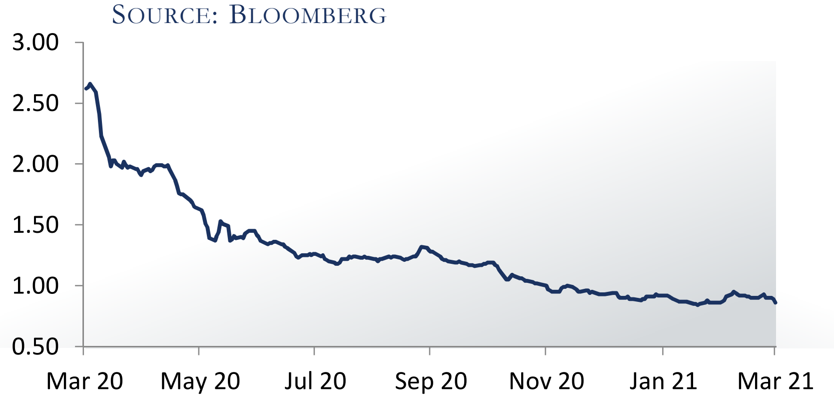


"We now see meaningfully more attractive income opportunities in positions from 5-10 years,

and our outlook does not expect higher long-term inflation

after pandemic related supply constraints ease and stimulus wanes."

US Credit Index – Spread (%)
Source: Bloomberg



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