Short Maturity Muni and Low Duration 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

Short maturity yields in both taxable and tax-exempt markets continued to trade within relatively tight ranges over the course of the quarter as the Federal Reserve remained notably dovish. The central bank continues to reiterate their desire to see significant further improvement in the labor market following the pandemic's unprecedented impact on the economy. While the committee did acknowledge that near-term U.S. growth will likely accelerate to levels not seen in decades, they still see the need for accommodative monetary policy in the form of ultra-low short-term rates into 2023. Although we believe the Fed's commitment to ensuring a healthy labor market, it is certainly possible this goal could be met sooner than anticipated given the current pace of vaccinations and re-openings, thus giving the FOMC a window to begin gradually normalizing short-term rates sometime in 2022.

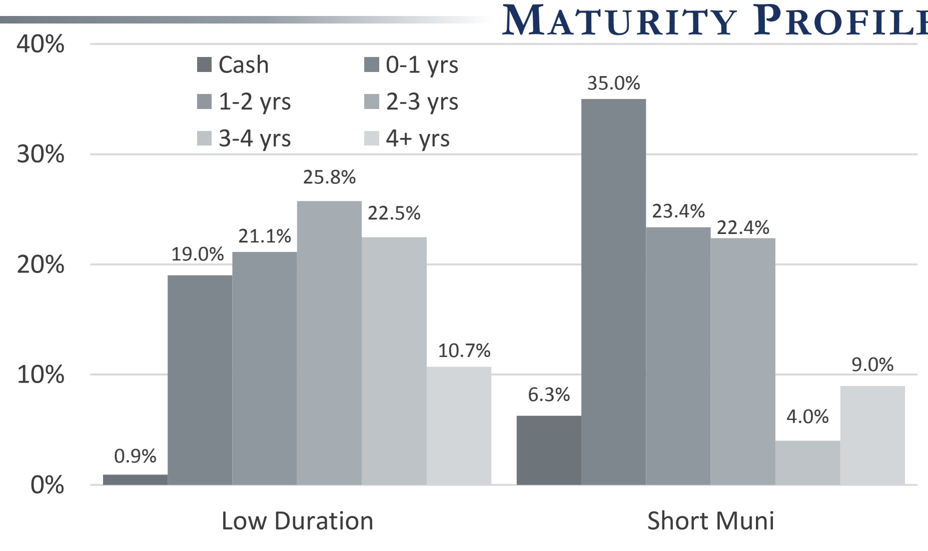
Low Duration

Duration: 2.00 yrs
Yield-to-Worst: 0.45%
Yield-to-Maturity: 0.50%
Maturity: 2.62 yrs

Short Muni

Duration: 1.58 yrs
Yield-to-Worst: 0.38%
Yield-to-Maturity: 0.39%
Maturity: 1.66 yrs

Maturity Profile



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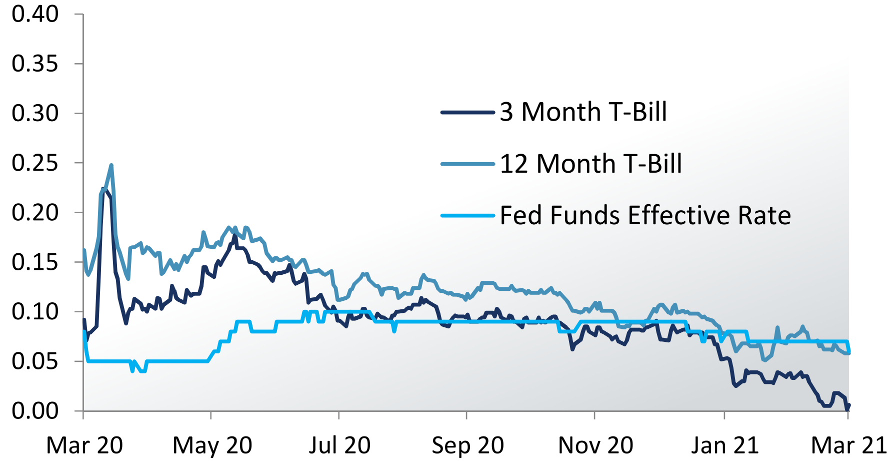
Performance Notes

Within the Short Maturity Municipal and Low Duration Taxable strategies, positions inside of 3 years saw little movement in yields, while longer positions from 4-5 years did see rates rise on the heels of additional fiscal stimulus and expectations of strong US growth over the next 6-12 months, and performance was flat to modestly softer over the course of the quarter. We continue to closely monitor near-term economic indicators to help frame how the Federal Reserve's policy stance may evolve during these unprecedented times, but we are encouraged to see more attractive yield opportunities emerging in parts of the yield curve. This should allow portfolios to gradually increase income levels while seeking capital preservation and delivering lower volatility.

3M / 12M T-Bill Rates (%)
Source: Bloomberg



"We are encouraged to see more attractive yield opportunities emerging in parts of the yield curve

that should allow portfolios to gradually increase income levels

while seeking capital preservation and delivering lower volatility."

2 YR UST vs 2 YR MUNI Yields (%)
Source: Bloomberg

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