First Quarter 2021
Bond Market Commentary

Bond market returns in the first quarter of 2021 were most impacted by the steepening of the U.S. Treasury yield curve. While the Federal Reserve continues to peg short-term interest rates within a range of 0.00% and 0.25%, longer-term interest rates rose. The bond market "vigilantes" took matters into their own hands, concerned about the massive amount of additional stimulus being discussed. The impact of such large monetary handouts have bond market participants worried about the effect on inflation. Washington has no fears of deficits or debt financing as the U.S. National debt hit a new high of $28 trillion in March 2021, surpassing 100% of GDP. When is enough too much?

According to Bloomberg, interest rates out to two year maturities remained relatively unchanged, while 10-, 20- and 30-year Treasury yields rose by 73, 79 and 69 basis points, respectively. The impact on longer-term bonds is highlighted in the chart to the right. Specifically, the Bloomberg Barclays U.S. Treasury 20+ year index return was -13.92% for the first quarter.

Going through the list, the only segment of the bond market to provide a positive return for the quarter was the BB Corporate High Yield index at 0.85%. This was due to the higher coupon component of the return calculation.

What stands out most in the data are the sources and variability in the taxable bond data over the past year. Highest returns for the year were centered in the lowest credit rating sectors, and consistently, the lowest returns were found in the highest quality and longest duration segments.

An exception to the taxable bond data can be found in the municipal bond sector. While realizing a modest loss in the first quarter, both the 6 month and 1 year data were positive. The municipal market is benefiting from a continuing high investor demand for bonds together with the recent Presidential outline of possible tax rate increases, which would make tax-exempt interest more valuable.

With growing progress on the vaccine front there is mounting optimism for economic healing. This has translated to raising consumer expectations and growing pent up demand for good and services. Adding all the expected stimulus on top of these expectations puts the pressure on the Federal Reserve to maintain inflation discipline. While on the record for maintaining low rates in place into 2023, the bond market will not accept higher inflation without additional compensation. As was witnessed during the first quarter, bond market investors become much better sellers of bonds as inflation expectations rise.

Employment, GDP and inflation are key statistics that will determine the market outcomes for the near future. A smooth and full economic reopening would go a long way to help make it a lot less volatile.

Index Returns As of 3/31/21	Performance Period		
Index	3 Month	6 Month	1 Year
Bloomberg Barclays US Treasury Intermediate	-1.76	-1.99	-1.27
Bloomberg Barclays Govt/Credit Intermediate	-1.86	-1.39	2.01
Bloomberg Barclays Intermediate Aggregate	-1.61	-1.20	1.38
Bloomberg Barclays US Treasury	-4.25	-5.05	-4.43
Bloomberg Barclays Govt/Credit	-4.28	-3.50	0.86
Bloomberg Barclays Aggregate	-3.37	-2.73	0.71
Bloomberg Barclays US Treasury 20+ Year	-13.92	-16.52	-16.31
Bloomberg Barclays Corporate	-4.65	-1.74	8.73
Bloomberg Barclays Corporate Intermediate	-2.19	-0.47	8.54
Bloomberg Barclays Corporate High Yield	0.85	7.36	23.72
Bloomberg Barclays Credit AAA	-2.61	-2.34	-0.23
Bloomberg Barclays Credit AA	-4.78	-3.39	2.32
Bloomberg Barclays Credit A	-4.91	-2.89	5.14
Bloomberg Barclays Credit BAA	-4.32	-0.46	13.06
Bloomberg Barclays MBS	-1.10	-0.86	-0.09
Bloomberg Barclays TIPS	-1.47	0.12	7.54
Bloomberg Barclays Inter-Short Muni	-0.21	0.61	4.39

Source: Bloomberg Barclays

Daily Generic Municipal Bond Yields as of 3/31/21

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2022	0.08	0.18	0.41	1.39
2 Yr.	2023	0.12	0.23	0.46	1.43
3 Yr.	2024	0.22	0.35	0.57	1.52
4 Yr.	2025	0.37	0.52	0.75	1.68
5 Yr.	2026	0.48	0.64	0.89	1.79
7 Yr.	2028	0.73	0.88	1.16	2.02
9 Yr.	2030	0.99	1.14	1.46	2.32
10 Yr.	2031	1.06	1.22	1.55	2.41
12 Yr.	2033	1.20	1.35	1.72	2.56
14 Yr.	2035	1.30	1.47	1.87	2.70
15 Yr.	2036	1.34	1.52	1.94	2.76
17 Yr.	2038	1.43	1.59	2.02	2.84
19 Yr.	2040	1.50	1.66	2.09	2.92
20 Yr.	2041	1.54	1.70	2.12	2.96
25 Yr.	2046	1.70	1.85	2.27	3.12
30 Yr.	2051	1.76	1.90	2.34	3.19

Source: Bloomberg

Index Descriptions:

Bloomberg Barclays US Intermediate Treasury Index Unmanaged index includes all publicly issued, US Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have $250 million or more of outstanding face value.

Bloomberg Barclays Intermediate Government/Credit Index: Is an unmanaged index based on all publicly issued intermediate government and corporate debt securities with maturities of 1-10 years. This index represents asset types which are subject to risk, including loss of principal.

Bloomberg Barclays U.S. Treasury Bond Index: Is part of Bloomberg Barclays global family of government bonds indices. The index measures the performance of the U.S. Treasury bond market, using market capitalization weighting and a standard rule based inclusion methodology.

Bloomberg Barclays Government/Credit Bond Index Unmanaged index that tracks the performance of US Government and corporate bonds rated investment grade or better, with maturities of at least one year.

Bloomberg Barclays Intermediate Aggregate Index: Is an unmanaged index that consists of 1-10 year Governments, 1-10 year Corporates, all Mortgages, and all Asset-Backed securities within the Aggregate Index (i.e. the Aggregate Index less the Long Government/Corporate Index).

Bloomberg Barclays U.S. Aggregate Bond Index: Is an unmanaged index composed of securities from the Bloomberg Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

Bloomberg Barclays U.S. Credit Index: Is composed of all publicly issued, fixed-rate, nonconvertible, investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included. Total return comprises price appreciation/depreciation and income as a percentage of the original investment.

Bloomberg Barclays U.S. Intermediate Credit Index: Measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. The index only includes securities with maturity between one and ten years. It is composed of the Bloomberg Barclays U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

Bloomberg Barclays U.S. Corporate High Yield Index: Is an unmanaged index that is comprised of issues that meet the following criteria: at least $150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity.

Bloomberg Barclays U.S. Mortgage-Backed Securities Index: Is an unmanaged index that tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by GNMA, FNMA, and FHLM.

Bloomberg Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index: Represents securities that protect against adverse inflation and provide a minimum level of real return. To be included in this index, bonds must have cash flows linked to an inflation index, be sovereign issues denominated in U.S. currency, and have more than one year to maturity, and, as a portion of the index, total a minimum amount outstanding of 100 million U.S. dollars. An individual cannot invest directly in an index.

Bloomberg Barclays Municipal Bond Inter-Short 1-10 Year Index: Is an unmanaged index of municipal bonds traded in the U.S. with maturities ranging from 1-10 years.

An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not bear fees, taxes, or transaction costs. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and types of securities held by the strategies. The benchmarks are shown for comparison purposes and are fully invested and include the reinvestment of income.