Second Quarter 2021

Bond Market Commentary

Following rising interest rates and disappointing bond returns in the first quarter of 2021, intermediate and longer-term interest rates reversed course and moved lower in the second quarter. However, the net yield curve impact year to date reveals higher rates for maturities of two years and longer.

According to Bloomberg, the impact of the reversal in rates produced quarterly returns of 0.7%, 3.1% and 8.1% from 5-year, 10-year and 30-year U.S. Treasuries, respectfully. Year to date, the returns remain negative at -1.7%, -4.0% and -8.8%, respectfully.

Much of the volatility this year has been the result of confusing communication with respect to the future of monetary and fiscal stimulus. Entering the year, there were strong indications of a reopening economy, improving employment and a successful vaccine deployment. The extension of supplemental unemployment benefits and other Federal aid was debated. In addition, the Federal Reserve was beginning to be questioned about the emergency bond buying and record low interest rate policy.

Investors don't like uncertainty and the markets reacted defensively. During the second quarter, both the Federal Reserve and the new administration clarified their goals and objectives which included additional stimulus. The bond market readjusted.

The second quarter produced strong evidence of a healing economy, strong corporate earnings and unprecedented stimulus. The impact has been clearly identified in corporate bond credit spreads. This metric indicates that spreads on both investment-grade and junk bond yield are at or near all time lows. Demand for yield has driven these securities to levels that are unattractive and leave little room for error. We don't believe we are getting properly compensated for the credit risks in this sector. Due to these conditions, we believe it is appropriate to upgrade and maintain higher credit quality in your fixed income portfolios.

While most sectors of the bond market produced negative returns year to date, TIPS, High Yield and Municipals remained positive. Municipals benefited from recovering state and local government revenue, direct Federal aid and strong demand from investors. The Biden administration has advanced an extensive list of potential tax changes to address the costs of all the stimulus programs. These tax proposals only serve to make municipal bonds more attractive to high earners further supporting their prices.

Finding yield in this current environment is challenging. The level of Interest rates are in the hands of the Federal Reserve, and they indicate no reason to make any changes. Rather than adding interest rate, credit, structure or liquidity risks to modestly increase yield in our portfolios at historically tight spreads, we are maintaining a neutral to slightly defensive posture.

Index Returns As of 6/30/21	Performance Period		
Index	3 Month	6 Month	1 Year
Bloomberg Barclays US Treasury Intermediate	0.62	-1.14	-1.18
Bloomberg Barclays Govt/Credit Intermediate	0.98	-0.90	0.19
Bloomberg Barclays Intermediate Aggregate	0.78	-0.84	0.05
Bloomberg Barclays US Treasury	1.75	-2.58	-3.22
Bloomberg Barclays Govt/Credit	2.42	-1.96	-0.39
Bloomberg Barclays Aggregate	1.83	-1.60	-0.33
Bloomberg Barclays US Treasury 20+ Year	6.80	-8.06	-10.72
Bloomberg Barclays Corporate	3.55	-1.27	3.30
Bloomberg Barclays Corporate Intermediate	1.70	-0.52	2.57
Bloomberg Barclays Corporate High Yield	2.74	3.62	15.37
Bloomberg Barclays Credit AAA	4.74	-3.01	-0.52
Bloomberg Barclays Credit AA	3.60	-1.96	0.56
Bloomberg Barclays Credit A	3.23	-1.94	1.37
Bloomberg Barclays Credit BAA	3.75	-0.56	5.48
Bloomberg Barclays MBS	0.33	-0.77	-0.42
Bloomberg Barclays TIPS	3.25	1.73	6.51
Bloomberg Barclays Inter-Short Muni	0.51	0.30	2.18

Source: Bloomberg

Daily Generic Municipal Bond Yields as of 6/30/21

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2022	0.12	0.22	0.27	1.19
2 Yr.	2023	0.14	0.26	0.30	1.23
3 Yr.	2024	0.23	0.36	0.37	1.33
4 Yr.	2025	0.37	0.53	0.53	1.48
5 Yr.	2026	0.48	0.67	0.69	1.60
7 Yr.	2028	0.69	0.89	0.94	1.79
9 Yr.	2030	0.93	1.15	1.21	2.04
10 Yr.	2031	0.99	1.21	1.27	2.10
12 Yr.	2033	1.09	1.31	1.37	2.22
14 Yr.	2035	1.16	1.40	1.46	2.32
15 Yr.	2036	1.19	1.45	1.51	2.38
17 Yr.	2038	1.25	1.49	1.56	2.44
19 Yr.	2040	1.31	1.54	1.61	2.50
20 Yr.	2041	1.33	1.56	1.63	2.52
25 Yr.	2046	1.47	1.67	1.77	2.67
30 Yr.	2051	1.52	1.71	1.83	2.72

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.