Third Quarter 2021

Bond Market Commentary

Fixed income returns remained negative across most sectors of the bond market year to date. Both longer term bonds and sectors that carry lower yield to maturity characteristics trailed the higher yielding sectors. Surprisingly, short to intermediate term municipal bonds have fared better and maintained positive returns year to date and over 1 year.

Interest rates have been in a secular decline for forty years. Thirty-year U.S. Treasury bond yields peaked on September 30, 1981 at 14.67% and they bottomed on September 30, 2020 at 1.42%. On September 30, 2021 the yield was 1.94%. It is hard to believe that conditions have changed so much over this period. According to Bloomberg, the average yield on the thirty-year Treasury bond was 6.49% over the past forty years.

Based on comments and minutes of the recent Federal Reserve Board meetings, economic and market conditions have improved to the point where the massive easy money policies embarked on by the Fed starting with the great recession in 2008 will come to an end. Specifically, discussions have turned to a tapering of the $120 billion monthly bond buying program in November, leading to a possible increase in interest rate policies in 2022.

The reality of this never before tested monetary experiment ending arrives with a lot of uncertainty. For bond investors, concerns over the impact of rising interest rates on existing bonds in their portfolio must be weighed against the opportunity to earn more attractive rates of return as interest rates rise.

Savers have been disadvantaged over the past 20 years. Real interest rates have been squeezed down to negative levels. At the same time, the Fed has supported and rewarded risk takers. While they have boosted returns for some investors, they have diminished returns for others. This policy has produced various unintended consequences, many that have yet been identified.

Bond investors should welcome the onset of a rising interest rate environment. The opportunity to reinvest income and maturing bond principal at higher rates will lead to higher expected rates of return. Investing in a separately managed bond portfolio protects bond investors as rates rise. Bonds in your portfolio have increased in value as rates fell to all time lows. While the increased value will diminish as the bonds reach their maturity date, the yield to maturity at which the original purchase took place will be realized. There is no unexpected money lost.

The sooner and faster that interest rates rise, the quicker bond investors will achieve higher income and higher return on investments.

In addition to the benefits of reinvestment of interest and principal, changing interest rate conditions also impact quality, sector, industry and issuer dynamics. Our portfolio management team monitors these factors to design a portfolio to meet your investment objectives.

Index Returns As of 9/30/21	**Performance Period**		
Index	3 Month	YTD	1 Year
Bloomberg US Treasury Intermediate	-0.01	-1.15	-1.38
Bloomberg Govt/Credit Intermediate	0.02	-0.87	-0.40
Bloomberg Intermediate Aggregate	0.05	-0.79	-0.38
Bloomberg US Treasury	0.09	-2.50	-3.30
Bloomberg Govt/Credit	0.04	-1.93	-1.13
Bloomberg Aggregate	0.05	-1.55	-0.90
Bloomberg US Treasury 20+ Year	0.47	-7.63	-10.42
Bloomberg Corporate	0.00	-1.27	1.74
Bloomberg Corporate Intermediate	0.08	-0.44	1.31
Bloomberg Corporate High Yield	0.89	4.53	11.28
Bloomberg Credit AAA	-0.34	-3.34	-1.91
Bloomberg Credit AA	-0.09	-2.04	-0.34
Bloomberg Credit A	-0.12	-2.06	0.11
Bloomberg Credit BAA	0.11	-0.45	3.52
Bloomberg MBS	0.10	-0.67	-0.43
Bloomberg TIPS	1.75	3.51	5.19
Bloomberg Inter-Short Muni	0.02	0.32	1.15

Source: Bloomberg

Daily Generic Municipal Bond Yields as of 9/30/21

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2022	0.16	0.23	0.36	1.26
2 Yr.	2023	0.16	0.26	0.37	1.27
3 Yr.	2024	0.24	0.36	0.45	1.34
4 Yr.	2025	0.38	0.52	0.61	1.49
5 Yr.	2026	0.52	0.69	0.78	1.64
7 Yr.	2028	0.81	0.98	1.06	1.92
9 Yr.	2030	1.05	1.24	1.32	2.16
10 Yr.	2031	1.12	1.31	1.40	2.32
12 Yr.	2033	1.22	1.41	1.51	2.34
14 Yr.	2035	1.28	1.50	1.61	2.43
15 Yr.	2036	1.31	1.55	1.67	2.48
17 Yr.	2038	1.38	1.59	1.72	2.53
19 Yr.	2040	1.44	1.65	1.80	2.60
20 Yr.	2041	1.46	1.67	1.82	2.62
25 Yr.	2046	1.62	1.83	1.99	2.78
30 Yr.	2051	1.67	1.89	2.07	2.84

Source: Bloomberg

Index Descriptions:

Bloomberg 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 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 U.S. Treasury Bond Index: Is part of Bloomberg 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 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 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 U.S. Aggregate Bond Index: Is an unmanaged index composed of securities from the Bloomberg 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 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 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 U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

Bloomberg 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 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 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 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.