Second Quarter 2020
Bond Market Commentary

The Fed to the rescue. In unprecedented fashion, the Federal Reserve has decisively come to the rescue of the fixed income markets as credit spreads widened and liquidity evaporated. Utilizing their "unlimited" ability to provide liquidity, they have expanded their balance sheet by over $2.9 trillion this year. As lender of last resort, they implemented a series of direct credit facilities to depository institutions, borrowers, investors and other financial institutions. They are on record promising to keep interest rates near zero for years to come.

They have entered the fixed income markets as never before. In addition to the traditional purchasing of U.S. Treasury securities, they have expanded their buying into corporate and municipal securities. Purchases have expanded in the secondary markets and as direct buying of primary market debt.

The impact has been substantial. Having dropped Treasury rates near zero in March, their direct purchasing of corporate bonds has brought credit spreads almost back to pre-pandemic levels. The result has been a massive supply of high-grade corporate debt. Issuance already tops $1 trillion, more than all of 2019. With 6 more months to go, we would expect the $1.4 trillion record of the past 10 years to be shattered.

While the damage that was inflicted early in the quarter has been minimized, one must wonder at what cost? Total U.S. debt currently exceeds $79.8 trillion. Current budget projections indicate that public debt will exceed the size of the economy by the end of the 2020 Fiscal Year. For perspective, if you placed $1.00 on a table every second, it would take approximately 31,710 years to get to one trillion! It's not a matter of if, but when, the weight of all the debt will collapse on us.

For now, we only have what the Fed has fabricated for us. Treasury based interest rates pegged near zero for the foreseeable future, synthetically tight credit spreads, interference in the public markets and direct support for corporations regardless of their irresponsible financial management.

To us, bonds play a valuable role in investors asset allocation. In the past, bonds provided diversification, stability, liquidity and income. Currently, bonds have stripped down to diversification, stability and liquidity. As witnessed in March, we should not under-estimate the importance of those factors. With riskier assets dropping 25% or greater in a matter of weeks, the safety and security of a well structured bond portfolio effectively dampened the destruction.

While all the Fed efforts have stabilized the bond market and boosted the equity markets, there will be another event in the future that will require an allocation to safer assets.

In both our institutional and high net-worth portfolios we remain committed to meeting our objectives; diversification, stability, liquidity, and a little income.

Index Returns As of 06/30/20	Performance Period		
Index	3 Month	6 Month	1 Year
Bloomberg Barclays US Treasury Intermediate	0.53%	5.82%	7.07%
Bloomberg Barclays Govt/Credit Intermediate	2.81%	5.28%	7.12%
Bloomberg Barclays Intermediate Aggregate	2.13%	4.67%	6.61%
Bloomberg Barclays US Treasury	0.48%	8.71%	10.45%
Bloomberg Barclays Govt/Credit	3.71%	7.21%	10.02%
Bloomberg Barclays Aggregate	2.90%	6.14%	8.74%
Bloomberg Barclays US Treasury 20+ Year	0.12%	21.61%	25.95%
Bloomberg Barclays Corporate	8.99%	5.02%	9.50%
Bloomberg Barclays Corporate Intermediate	7.63%	4.23%	7.21%
Bloomberg Barclays Corporate High Yield	10.18%	-3.80%	0.03%
Bloomberg Barclays Credit AAA	1.71%	5.74%	7.65%
Bloomberg Barclays Credit AA	5.01%	6.62%	9.60%
Bloomberg Barclays Credit A	7.04%	6.50%	10.43%
Bloomberg Barclays Credit BAA	11.24%	3.02%	8.19%
Bloomberg Barclays MBS	0.67%	3.50%	5.67%
Bloomberg Barclays TIPS	4.24%	6.01%	8.28%
Bloomberg Barclays Inter-Short Muni	2.68%	2.06%	3.65%

Source: Bloomberg Barclays

Daily Generic Municipal Bond Yields as of 06/30/20

Term	Maturity	AAA	AA	A	BAA
1 Yr	2021	0.19	0.29	0.73	1.89
2 Yr	2022	0.24	0.34	0.79	1.94
3 Yr	2023	0.27	0.40	0.84	1.96
4 Yr	2024	0.34	0.53	0.97	2.04
5 Yr	2025	0.43	0.67	1.12	2.14
7 Yr	2027	0.60	0.89	1.36	2.31
9 Yr	2029	0.77	1.08	1.58	2.51
10 Yr	2030	0.84	1.16	1.66	2.59
12 Yr	2032	1.01	1.32	1.84	2.77
14 Yr	2034	1.16	1.50	2.03	2.95
15 Yr	2035	1.22	1.58	2.11	3.03
17 Yr	2037	1.32	1.66	2.21	3.12
19 Yr	2039	1.38	1.73	2.29	3.19
20 Yr	2040	1.41	1.76	2.33	3.22
25 Yr	2045	1.58	1.93	2.53	3.40
30 Yr	2050	1.65	2.00	2.62	3.48

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.

10361 W. Innovation Drive, Suite 350, Milwaukee, WI 53226 P 262.439.2100 rmbcap.com