Third Quarter 2020
Bond Market Commentary

There was little change in interest rates during the third quarter. However, the yield curve began to steepen. With the short end of the yield curve anchored near zero by the Fed for the foreseeable future, inflation expectations and the supply/demand for long-term debt have begun to influence long-term interest rates.

Bond returns in the third quarter were most influenced by credit spreads. U.S. Government guaranteed securities provided minimal, but positive results. Corporate securities added incremental returns which were directly associated with the credit quality or sector of the securities.

Entering the fourth quarter, we are faced with many variables that will shape the direction of the markets. We expect to witness continued volatility as the Covid-19 second wave spreads across the U.S., the Presidential race plays out and the availability of a vaccine becomes a reality.

With the Fed locked into low short-term interest rates, the volatility will show up in credit spreads, quality ratings, and the yield curve in the bond market. We continue to monitor our portfolios and maintain strong correlations to our related benchmarks.

During times of uncertainty and potential volatility, we consider a client's fixed income allocation as an important risk management tool and source of liquidity. Attentive oversight of our portfolio allocations and credits will lead to favorable results.

Our fixed income team has been evaluating the portfolio holdings throughout our tax-exempt municipal bond portfolios. The economic dislocations resulting from the ongoing pandemic are certainly effecting State, local and school districts expenses as well as revenue collections.

Experience leads us to focus our attention on lower quality General Obligation (GO) bonds and, more importantly, municipal revenue bonds (REV). Historically, these are the securities that perform poorly during economic stress. In fact, it is not unusual for certain types of revenue bonds to become illiquid.

Our practice is to invest in higher quality GO securities and only essential service REV bonds. This strategy will help limit the bond portfolio's volatility while maintaining yield and liquidity. The small amount of yield that might be sacrificed for this protection is more than made up in times of stress and uncertainty.

Year to date, the Bloomberg Barclays (BB) Municipal Bond Index return was 3.33%, the BB GO Bond Index was 3.92%, and the BB Revenue Bond Index was 3.14%. This highlights the difficulty that the Municipal Revenue bond sector exhibits during economic uncertainty. For the BB Quality Municipal Bond Indices, year to date the Aaa index return was 4.24% while the Baa index return was 0.99%.

Maintaining the higher quality and GO issues paid off.

Index Returns As of 09/30/20	Performance Period		
Index	3 Month	YTD	1 Year
Bloomberg Barclays US Treasury Intermediate	0.19%	6.02%	6.03%
Bloomberg Barclays Govt/Credit Intermediate	0.62%	5.92%	6.32%
Bloomberg Barclays Intermediate Aggregate	0.48%	5.17%	5.65%
Bloomberg Barclays US Treasury	0.17%	8.90%	8.04%
Bloomberg Barclays Govt/Credit	0.78%	8.04%	8.03%
Bloomberg Barclays Aggregate	0.62%	6.79%	6.98%
Bloomberg Barclays US Treasury 20+ Year	0.14%	21.78%	16.62%
Bloomberg Barclays Corporate	1.54%	6.64%	7.90%
Bloomberg Barclays Corporate Intermediate	1.33%	5.61%	6.78%
Bloomberg Barclays Corporate High Yield	4.60%	0.62%	3.25%
Bloomberg Barclays Credit AAA	1.09%	10.67%	10.47%
Bloomberg Barclays Credit AA	0.82%	7.15%	7.36%
Bloomberg Barclays Credit A	1.13%	7.67%	8.54%
Bloomberg Barclays Credit BAA	2.11%	5.67%	7.45%
Bloomberg Barclays MBS	0.11%	3.62%	4.36%
Bloomberg Barclays TIPS	3.03%	9.22%	10.08%
Bloomberg Barclays Inter-Short Muni	1.04%	3.12%	4.03%

Source: Bloomberg Barclays

Daily Generic Municipal Bond Yields as of 09/30/20

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2021	0.12	0.26	0.43	0.89
2 Yr.	2022	0.14	0.28	0.46	0.93
3 Yr.	2023	0.16	0.30	0.49	0.99
4 Yr.	2024	0.23	0.39	0.59	1.10
5 Yr.	2025	0.30	0.49	0.70	1.21
7 Yr.	2027	0.56	0.77	1.04	1.49
9 Yr.	2029	0.82	1.08	1.40	1.78
10 Yr.	2030	0.92	1.19	1.53	1.88
12 Yr.	2032	1.09	1.39	1.77	2.07
14 Yr.	2034	1.22	1.57	1.99	2.25
15 Yr.	2035	1.28	1.65	2.08	2.33
17 Yr.	2037	1.38	1.75	2.20	2.43
19 Yr.	2039	1.45	1.84	2.30	2.52
20 Yr.	2040	1.48	1.88	2.34	2.56
25 Yr.	2045	1.66	2.08	2.55	2.77
30 Yr.	2050	1.73	2.14	2.62	2.85

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.

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