FIXED INCOME STRATEGY HIGHLIGHTS **NOVEMBER, 2020**

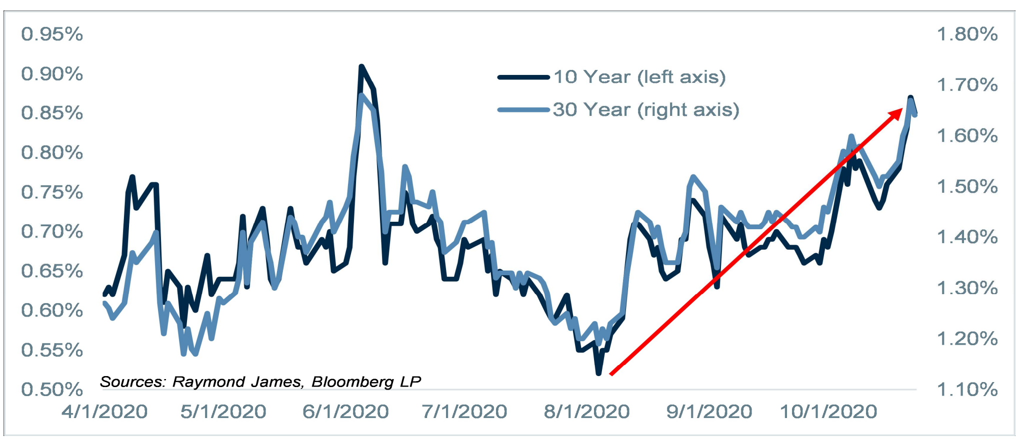
IN BRIEF: The U.S. Fixed Income Markets

Monetary easing to help mitigate the recession and the global health crisis has pushed interest rates below 1% for most of 2020. The downward trajectory creates a challenging environment for investors in their search for yield. On the flip side, as reinvestment risk persists, total return in the bond market has been quite healthy this year. The excess liquidity has compressed credit spreads, limiting income streams in bonds and highlights risks to capital losses going forward once the Federal Reserve begins to unwind its current accommodative policy.

Ten- and thirty-year yields have climbed since bottoming in August, while the 3-month treasury bill traded in a range of .08% and .10%. Although Fed intervention has greater influence over short end yields, a steepening curve, no matter how small, acknowledges investors' need for more reward further out on the curve.

EXHIBIT I

Short Term Up- Tick in 10- and 30-Year Yields



Looking forward, there is the potential for bond yields to rise given a number of factors. Formal election results, regardless of the winner should begin to settle investor uncertainties. Heading out of the election, the Senate majority leader made passing another round of a much-needed stimulus package a "top priority". With the economy on the mend, GDP lurched into positive territory at last report climbing an annualized 33.1% in Q3. The risk-on trade looking ever more enticing, bond investors may fair better at the shorter end of the curve while waiting out the shift in sentiment.

Gold has traded down 8.4% since its August high, but remains elevated, trading above levels reached in the aftermath of the financial crisis. Like Treasuries, gold is considered a safe haven and historically low interest rates are only adding to its appeal creating what is arguably a crowded trade. Coupled with a weakening U.S. dollar, the environment reflects investors' waning sentiment in global monetary stability. While we anticipate the economy will continue to recover, we recognize that headwinds stemming from the broader global backdrop may impede the pace of the recovery heading into the next year.

CLOSE-UP:

Bond Market Performance:

Year to date bond performance was strong with Treasury and agency issues beating not only the overall bond market but the S&P 500 as well. Understandably, this move was indicative of a flight to safety brought on by the Covid-19 pandemic. Investment grade corporate issues marginally beat stocks as lower quality corporate, municipal and mortgage backed securities trailed.

Over the last 3 months, the risk-on trade ignited as stocks recovered outperforming the US Broad Bond Index by 820 basis points. Corporate bonds advanced as well, however lower quality issues had more of a significant move. As the lower interest rate environment limits the near-term upside potential for bonds, the risk-on trade is anticipated to continue with the economic recovery. Consequently, the best opportunities lie within select high quality corporate bonds as opposed to Treasuries.

EXHIBIT II

Fixed Income Sector Performance – Q3 2020

Fixed Income Sector Performance Q3 2020	Rating	Maturity	Duration Mod Adj	Yield	Spread	Price	Trailing12 Month Total Return
Treasury (Intermediate)	Aaa/AAA	3.97	3.77	.25%	N/A	$106.37	5.92%
Agency	Aaa/AA+	3.81	3.04	.40%	15	$106.59	4.46%
MBS	Aaa/AAA	6.72	6.16	1.41%	116	$103.57	-14.20%
Municipal	Aa3/A+	4.77	3.46	.55%	30	$114.71	3.85%
Corporate (Intermediate)	A2/A-	5.70	5.27	.92%	67	$110.68	8.99%
High Yield	B1/B	6.25	3.67	5.7%	545	$ 99.14	2.30%

Source: Altman Investment Management Research and Bloomberg

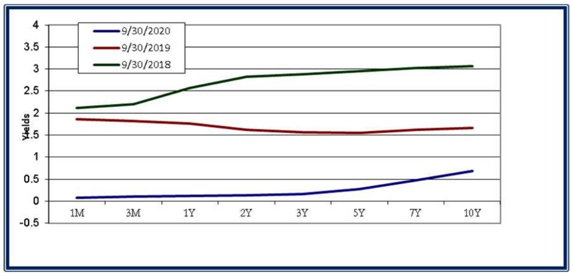
Sector Close up:

➢ Government Bonds

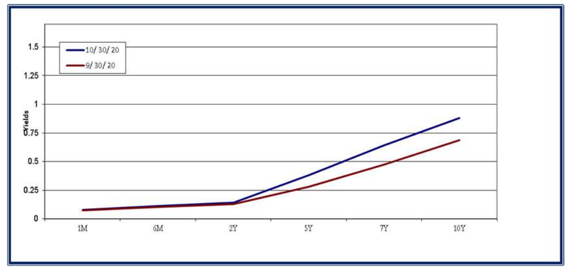
Treasury bond yields declined over the past three years, leveling out below 1% during 2020. Since bottoming in September, 5-10-year yields have climbed while the 3-month Treasury bill traded in a range of .08% and .10%. Despite this modest up-tick in rates in the intermediate to longer term range, reinvestment risk remains an issue providing little yield advantage over cash in this space.

EXHIBIT III-V

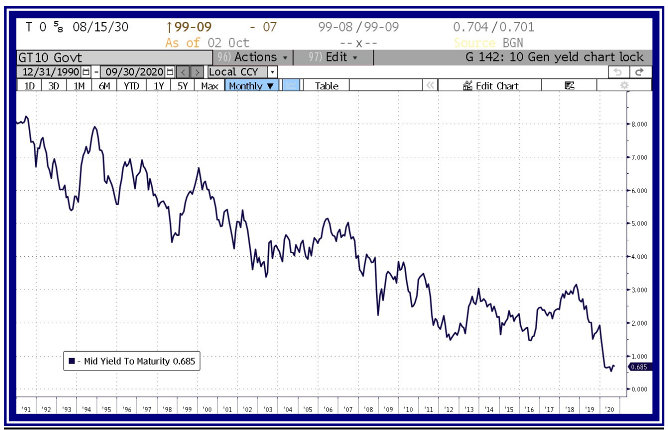
Long Term U.S. Treasury Yield Curve



The Short Term U.S. Treasury Yield Curve Has Steepened Since Q3 End



The 10-Year Treasury Yield



Source: Bloomberg and Altman Investment Management Research

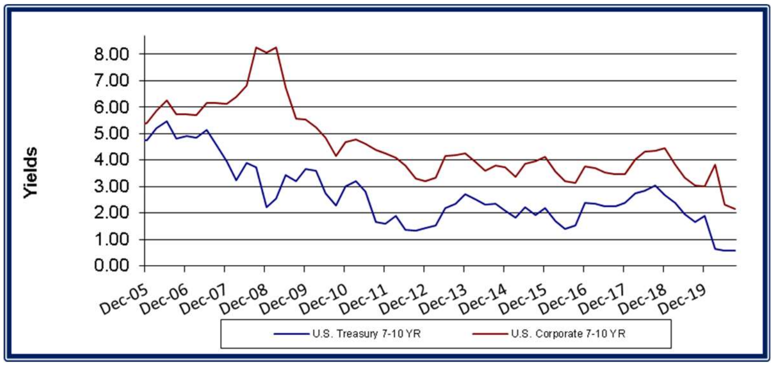
The U.S Treasury market traded within a narrow range of 65 -70 basis points most of the last month of the quarter. Yields across the curve behaved similarly, moving mostly sideways and ending the last month of the quarter just where they were at the beginning of the month. During the quarter the 10-year Treasury fell only about 2 basis points to .68% by September 30th. The bonds behaved as investors gained more comfort in the pace of the economic recovery and the progress made on the Covid-19 vaccine. The support of the Federal Reserve added to the stable bond market environment. The Fed bought Treasuries at a pace of some $80 billion a month during the quarter down significantly from the single day purchase in mid- March but still above the post-Global Financial Crisis quantitative easing periods. See Exhibit III.

➢ Investment-Grade Corporate Bonds

Corporate bond issuance reached all-time highs as corporations rushed to take advantage of the low interest rate environment and the Fed initiated a corporate bond purchasing program. Lower borrowing costs boosted access to cheaper funding throughout a desperate time during and heading out of the economic shutdown. Further enabling the appetite for risk as investors sought higher yields, low quality high yield corporates saw a disproportionate rise in relative performance after corporates bottomed in Q1. The outperformance from the corporate sectors has worked to narrow spreads over Treasuries. An increase in debt issuance during a time when earnings are still recovering causes some concern which is why we suggest sticking with higher quality corporate issues with higher cash levels and strong balance sheets.

EXHIBIT VI

Corporate Credit Spreads



Source: Bloomberg and Altman Investment Management Research

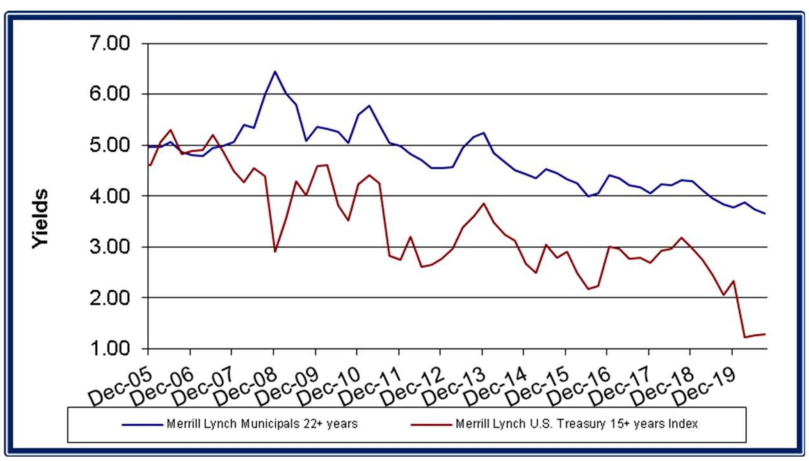
➢ Municipal Bonds

As expected, higher quality outperformed high yield municipals over the past 12 months as state budgets came under significant pressure as a result of the shut-down. Healthy new issuance and strong demand has helped this sector recover since Q1 along with support from Fed intervention, fiscal stimulus, low inflation and the re-opening of the economy. Although the Municipal Liquidity Facility setup by the Fed has boosted investor confidence by maintaining liquidity, stimulus negotiations heading into Q4 will likely feed volatility. State budgets are due to operate under continued pressures due to high unemployment levels, weak consumer spending, and softer tax collections that tend to lag economic recessions.

Stabilizing municipal yields against falling Treasuries yields provide an opportunity for yield pick-up and long-term total return as spreads revert to historical norms. Focusing on high quality in this area eliminate some expected volatility as states navigate the pandemic that is extending into 2021. Therefore, in municipals, we continue to emphasize high quality debt as the spread over Treasuries remains elevated.

EXHIBIT VII

10-Year AAA Municipal Bond Spread Over 10-Year Treasury



Source: Bloomberg and Altman Investment Management Research

IN SUMMARY:

Looking ahead, we anticipate a challenging environment for bonds as the economy recovers. Although bonds provide diversification in the case of stock market weakness or a set-back in economic growth, we recommend a mildly underweight portfolio with emphasis on select U.S. investment grade credit and inflation-protected bonds. In this environment, there is little appeal at the short end with historically low interest rates exposing risks to the long end. The sweet spot is currently in mid-range maturities of 3-5 years.

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