Reinhart PARTNERS

Manager Commentary

Active Intermediate Fixed Income

Third Quarter 2020

The economy continued in the third quarter on the V-shaped recovery path that began as the country emerged from the lockdown induced devastation of March and April. The unemployment rate dropped quickly and retail sales, aided by government aid programs, rose back toward pre-pandemic levels. Interest rates were little changed as the Fed indicated their intention to keep rates low during the recovery. Risk markets reacted positively as credit spread tightening persisted. Lower quality credits outperformed.

With interest rates bound by zero on the low end and prevented from rising dramatically by the Fed, returns for fixed income are directly correlated to the amount of credit risk held in portfolios. While credit risk was added to portfolios at attractive levels late in Q1 and early in Q2, the added credit was concentrated in high quality securities. As lower quality bonds outperformed in Q3, the portfolio was unable to keep pace, and performance lagged slightly.

The list of uncertainties as the fourth quarter begins is long. The pandemic continues worldwide. Vaccine trials are hitting snags. There is a presidential election looming. No agreement on further, market-expected, government stimulus has been reached. Unemployment, while improving, remains high, and many formerly temporary job losses are becoming permanent. The economic recovery will be as unique as the recession which preceded it, and there will likely be setbacks as it progresses.

Adherence to our conservative style of fixed income investing has been, and will always be, the hallmark of Reinhart Partners.

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