Reinhart PARTNERS

Manager Commentary

Intermediate Duration Corporate Fixed Income

Third Quarter 2020

During the third quarter economic measures continued to show a sharp rebound from the lows of March and April, albeit at a slower pace than previous months. Shorter rates fell slightly, and longer rates rose some as the Fed committed to sustained low rates until inflation overshoots its 2% target. Credit spreads continued to move tighter as the economic recovery endured. The combination of stable rates and tightening credit spreads resulted in another strong quarter of corporate bond performance.

The portfolio's more conservative credit risk positioning was a negative for relative performance during the third quarter. Lower-rated bonds saw more credit spread tightening during the third quarter, and so the portfolio's high-quality bias resulted in less price appreciation due to the corporate credit spread tightening. Also, the portfolio's yield was lower due to the more conservative credit risk positioning. Credit selection in higher-rated utilities was a positive for relative performance during the third quarter.

Heading into the fourth quarter, markets have priced in a continued economic recovery even though significant uncertainties and potential challenges to that outlook remain. Many Fed and Treasury programs have bought liquidity and time for firms to recover, but for many firms there are still difficult issues to address in order to reach a position of long-term solvency. Given these challenges and the potential for setbacks in the recovery, a conservative credit risk posture remains appropriate in the corporate bond market.

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