

Limited Duration Fixed Income

Fourth Quarter 2020

Anyone who did not have to live through it would have thought 2020 must have been a banner year. As 2020 began, markets were rocking. Stocks were setting all-time highs and credit spreads were tight. As 2020 ended, stocks were higher and credit spreads were tighter. Obviously, 2020 was not a banner year, and there was a disconnect between the financial world and the “real” world. The bridge between these two worlds has been government stimulus and COVID-19 vaccines. Continued monetary stimulus in the form of QE and market supporting programs as well as unprecedented fiscal stimulus has led to market optimism in the face of a worsening pandemic, one that will hopefully end as vaccinations roll out.

This market optimism led to risk taking by investors in the fourth quarter. Credit spreads continued to tighten during the quarter, reducing the amount of compensation available for taking credit risk. This led to underperformance as the high-quality focus in the portfolio was outpaced by the lower quality exposure in the benchmark.

Looking forward, 2021 could be a volatile year. Potential items which could aid the economy include increased government stimulus promised by the incoming Biden administration as well as a quick completion of COVID-19 vaccinations. On the negative side, the vaccination may not go smoothly, resulting in prolonged pandemic restrictions which hamper economic activity. Increased regulations and higher taxes, both expected to be Biden priorities, could also reduce growth. In addition, longer term effects of profligate government spending may prove harmful. For now, markets seem to be concentrating on the positives, but that could change quickly.

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