Limited Duration Fixed Income
First Quarter 2021

Vaccines and government stimulus dominated the news during the first quarter of the year. After a somewhat slow start, the pace of vaccinations in the U.S. has picked up dramatically, leading to increased optimism that a "return to normal" is possible. In the meantime, the government continues to pass new and larger stimulus packages. This stimulus, coupled with dramatic savings rate increases during the pandemic, has led to the concern that the economy may overheat as it fully reopens. The fear that inflation will be the result of a red-hot economy caused rates on the longer end of the yield curve to spike.

Fear of increasing inflation, due to both fiscal and monetary stimulus, drove interest rates higher and bond prices lower in the quarter. The low yields available to the portfolio were not able to offset the decline in bond prices. With duration just short of the benchmark, rising rates were a slight positive for relative performance. Credit spreads tightened slightly during the quarter, leading to a small positive return from security selection.

As long as virus case rates can be contained, it is likely that the economy will continue to improve, perhaps at impressive rates considering the recent amounts of both monetary and fiscal stimulus. The Fed is convinced that any realized inflation as a result of a rapidly improving economy will be transitory, and that they have the tools to prevent inflation from getting out of control. The fixed income markets expressed some skepticism in the Fed's position during the first quarter. The tug-of-war seems likely to continue in the near term as the Fed has signaled the desire to keep rates low but fixed income traders will react quickly if signs of inflation persist.

Adherence to our conservative style of fixed income investing has been, and will always be, the hallmark of Reinhart Partners. We thank you for choosing us to manage your fixed income investments and will continue to deliver both the service and results you have come to expect.