

BOND MARKET UPDATE

As of 12/31/20 | Volume 9, Issue 4 | FFTAM.com

In the 4th Quarter of 2020, fixed income performance trended mostly sideways. Total returns for both taxable investments and tax-free investments were positive. For taxable portfolios in the 4th Quarter, the Barclays Aggregate generated a total return of 0.67%. For tax-free portfolios in the 4th Quarter, the Barclays 1-10yr Muni generated a total return of 0.98%. YTD returns are 7.51% and 4.23%, respectively. The economy continued its reopening process, the Fed reconfirms its support, a vaccine is being distributed and the markets continue to do its best at looking through the short-term economic challenges of Covid.

Economy

GDP in the 3rd Quarter of 2020 came in with a final Q/Q reading of +33.4%. GDP Projections for the 4th Quarter of 2020 are estimated at +4.6%, reflecting the reopening of businesses as the country learns how to deal with Covid. After peaking in the second quarter, US Unemployment and US Continuing Jobless Claims continue to decline. However, Continuing Claims, U3 and U6 Unemployment readings remain elevated. (see chart 1)

As we continue to reemerge from the Covid shutdowns, we are seeing nice bounce backs from historical low PMI's (see chart 2). In the 4th Quarter of 2020, all major economies saw PMI's remain above 50, a hurdle that was cleared in the 3rd Quarter.

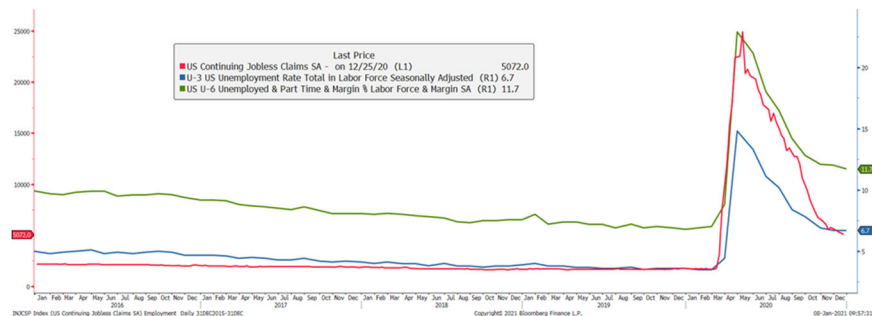


Chart 1

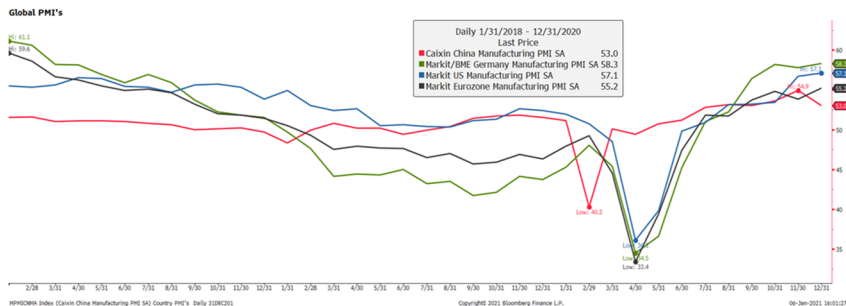


Chart 2

ABILENE

400 Pine Street
Suite 300
Abilene, TX 79601
325-627-7100

BEAUMONT

3515 Dowlen Road
Beaumont, TX 77706
409-600-6460

BRYAN/COLLEGE STATION

1716 Briarcrest Dr
Suite 400
Bryan, TX 77802
979-260-2134

ODESSA

3555 Billy Hext Rd
Odessa, TX 79765
432-367-8912

SAN ANGELO

222 S. Koenigheim St
San Angelo, TX 76903
325-659-5987

SAN ANTONIO

9601 McAllister Fwy
Suite 1204
San Antonio, TX 78216
325-627-7100

FORT WORTH

1000 Forest Park Blvd
Suite 200
Fort Worth, TX 76110
882-703-6404

HOUSTON

24080 Hwy 59 N
Kingwood, TX 77339
281-318-4625

FFTAM OFFICE LOCATIONS

Not FDIC Insured | May Lose Value | No Bank Guarantee

STEPHENVILLE

2201 W. South Loop
Stephenville, TX 76401
254-918-6262

SWEETWATER

201 Elm Street
Sweetwater, TX 79556
325-235-6644

BOND MARKET UPDATE

As of 12/31/20 | Volume 9, Issue 4 | FFTAM.com

Rates

For the 4th Quarter of 2020, U.S. risk free rates have started to steepen as long rates started inching up (see chart 3). The Fed, at both the November and December FOMC meetings elected to keep the cash rate at the zero lower bound and reconfirmed their intention to keep the cash rate at the zero lower bound though at least 2023. In addition, at the December meeting, Powell communicated in his prepared remarks that the Fed will continue with its \$120B/month buy program for the foreseeable future until the Fed has met their objectives of full employment and an average rate of inflation of 2%. Now that we are in the steepening process, it will be interesting to see if the Fed will let long rates continue to rise?

For the 4th Quarter of 2020, global developed bond rates diverged slightly from what happened here in the USA. Global rates trended sideways. Not all countries have reached new lows, however, two countries still trade with negative 10yr interest rates (see chart 4).

Credit

Credit performed very well versus risk free in the 4th Quarter of 2020. Spreads tightened for both investment grade and high yield as risk appetite prevailed with the backing of the Fed and the announcement of a vaccine. Investment grade spreads tightened by roughly 40bps. High yield spreads tightened by roughly 157bps. As you can see, we have almost fully recovered from the Covid sell off.

Looking Forward

Looking forward, the risk-free curve should continue to steepen unless there is intervention from the Fed. The Fed has been noncommittal and vague as it relates to intervention on the long end of the UST curve but has acknowledged that long rates being low has been very accommodating. For credit, I don't see risk premiums increasing too much as the Fed is still in the market, a vaccine is now in distribution and stimulus is in full swing. As always, we run a high-quality portfolio that looks to take advantage of opportunities as they present themselves. We have been active in seeking those opportunities and feel good about the changes that have been made.



Chart 3

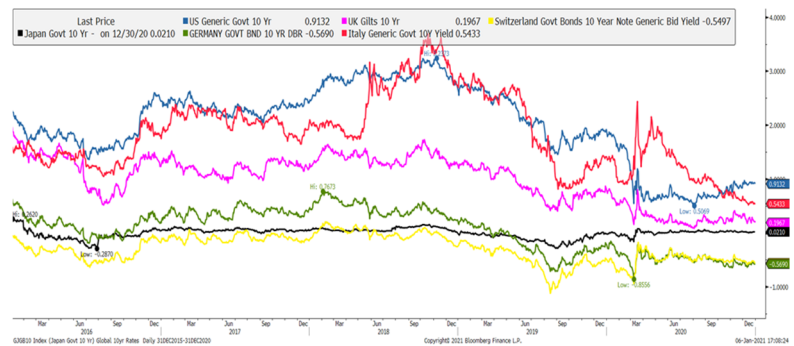


Chart 4

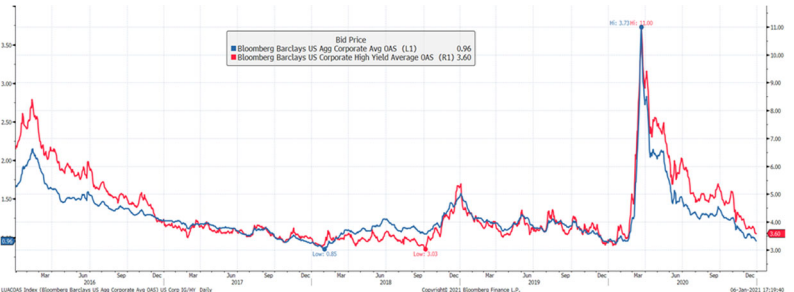


Chart 5

ABILENE

400 Pine Street
Suite 300
Abilene, TX 79601
325-627-7100

BEAUMONT

3515 Dowlen Road
Beaumont, TX 77706
409-600-6460

BRYAN/COLLEGE STATION

1716 Briarcrest Dr
Suite 400
Bryan, TX 77802
979-260-2134

ODESSA

3555 Billy Hext Rd
Odessa, TX 79765
432-367-8912

SAN ANGELO

222 S. Koenigheim St
San Angelo, TX 76903 325-659-5987

SAN ANTONIO

9601 McAllister Fwy
Suite 1204
San Antonio, TX 78216
325-627-7100

FORT WORTH

1000 Forest Park Blvd
Suite 200
Fort Worth, TX 76110
682-703-6404

HOUSTON

24080 Hwy 59 N
Kingwood, TX 77339
281-318-4625

FFTAM OFFICE LOCATIONS

Not FDIC Insured | May Lose Value | No Bank Guarantee

STEPHENVILLE

2201 W. South Loop
Stephenville, TX 76401
254-918-6262

SWEETWATER

201 Elm Street
Sweetwater, TX 79556
325-235-6644