

# Fixed income market update

May 2021

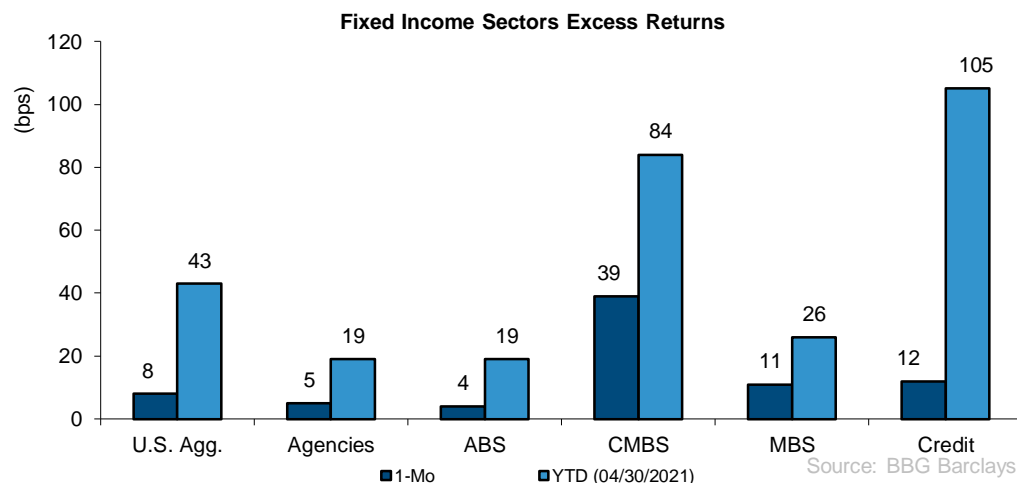
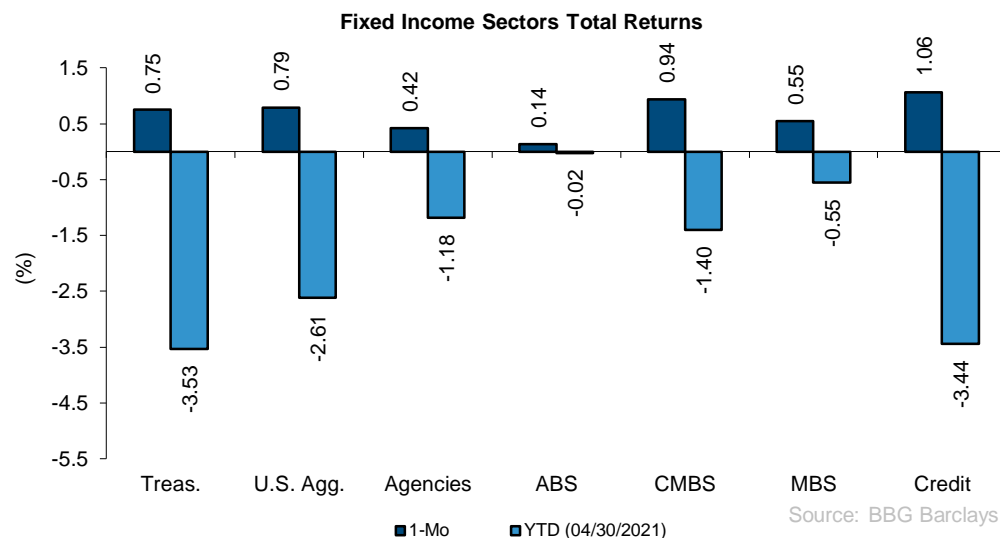
**BMO Fixed Income**

**1001 Brickell Bay Dr.  
Suite 2100  
Miami, Florida 33131**

[bmogam.com/USFixedIncome](http://bmogam.com/USFixedIncome)

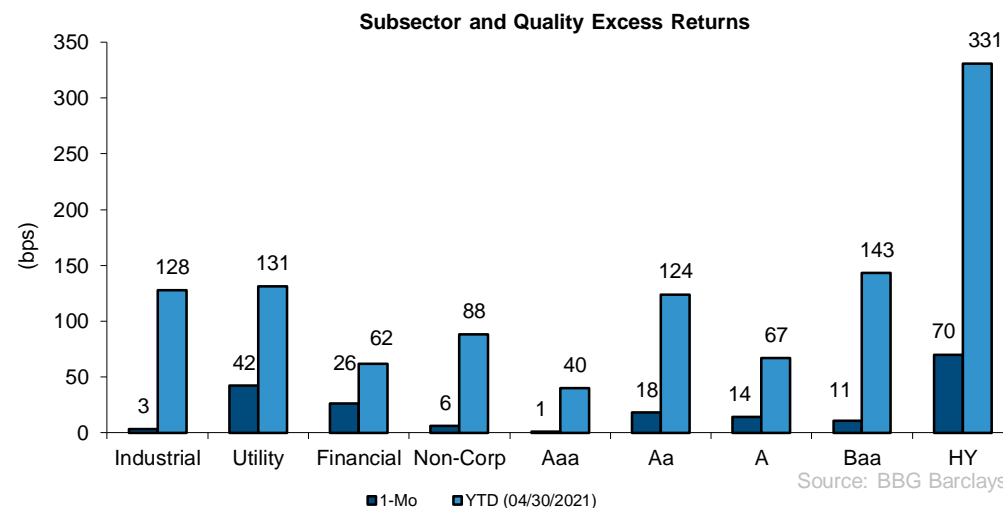
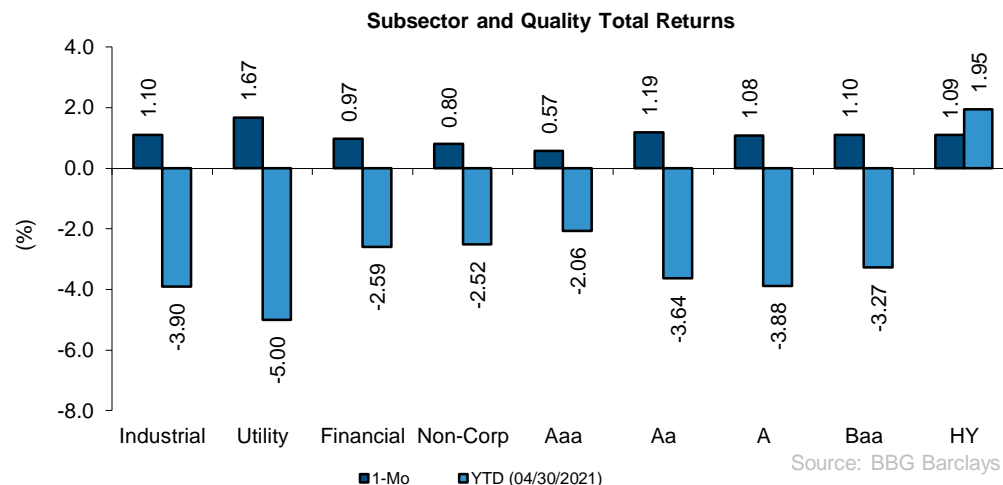
# Fixed income market update

- For the month ended April 30, 2021, the Bloomberg Barclays U.S. Aggregate Bond Index returned 0.79%. Year to date, the index has returned -2.61%.
- U.S. Treasuries returned 0.75% during the month as the yield on the 10-year U.S. Treasury declined to 1.63% from 1.74% at the end of March. For the month, long Treasuries (+2.33%) outperformed intermediate Treasuries (+0.38%).
- Mortgage-backed securities (MBS) returned 0.55% during the month, outperforming Treasuries by 11 basis points on a duration-adjusted basis. The option adjusted spread (OAS) of the Bloomberg Barclays U.S. Mortgage Index tightened 5 basis points during the month, ending the period at 7 basis points.



# Fixed income market update (continued)

- Credit securities returned 1.06% for the month, outperforming Treasuries by 12 basis points on a duration-adjusted basis. The OAS of the Bloomberg Barclays U.S. Credit Index ended the period at 83 bps, 3 basis points tighter than at the end of March.
- For the month, utilities delivered 42 basis points of excess return on a duration-adjusted basis, outperforming financials, non-corporates and industrials by 16, 36, and 39 basis points, respectively.
- AA rated securities were the best performing investment grade quality segment during the month, delivering 18 basis points of excess return and outperforming AAA, A and BBB rated securities by 17, 4 and 7 basis points of excess return, respectively. High yield delivered 70 basis points of excess return for the month.

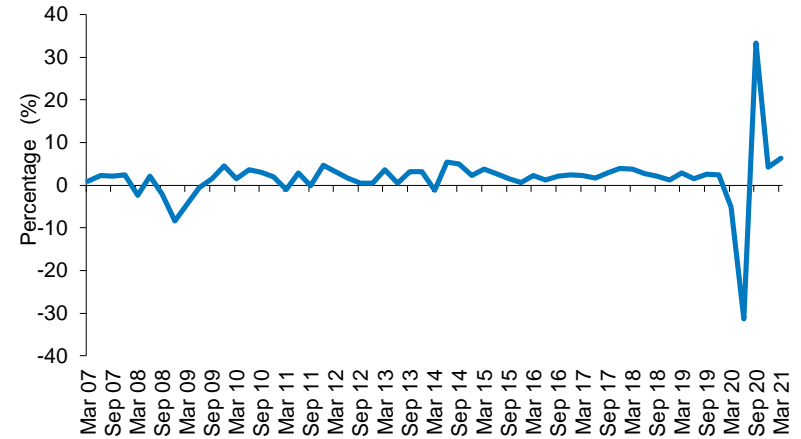


# Economic update

U.S. GDP grew 6.4% in the first quarter, continuing the significant economic rebound, though the figure was modestly below expectations. Excluding the third quarter record growth, this figure is the best since 2003. Driven by an extremely strong consumer spending growth figure of 10.7%, GDP is now within 1% of the pre-pandemic level. This growth included strong business investment, which increased 9.9%, and may include positive signals for the future with the largest detractor being a 2.6% drag from inventory reduction.

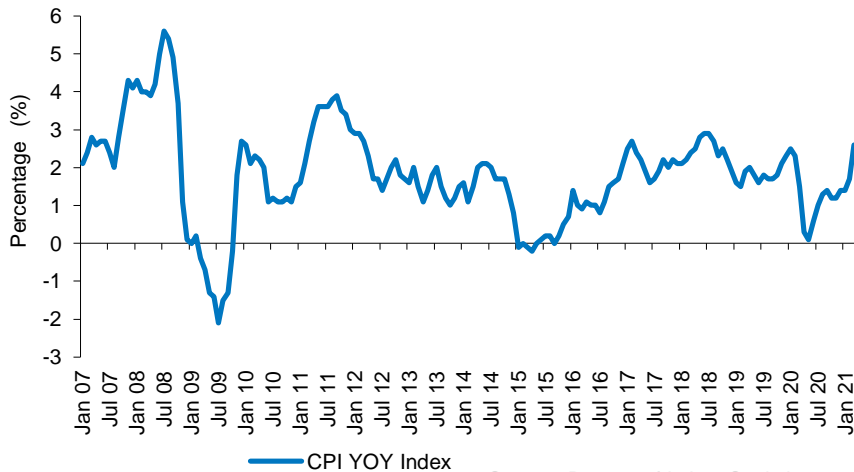


Gross Domestic Product (GDP)



Source: Bureau of Economic Analysis

Consumer Price Index (YoY)



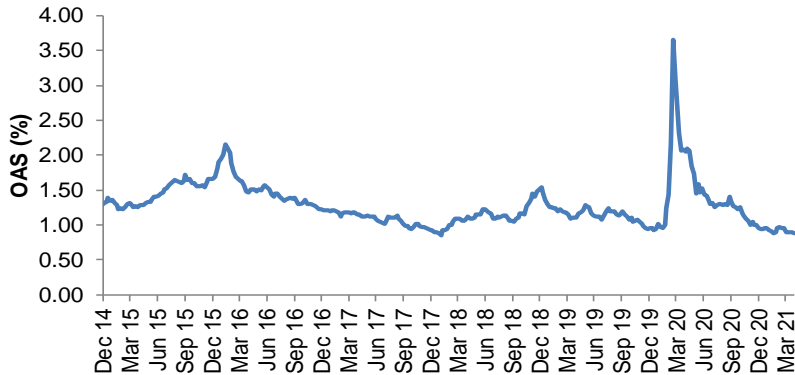
Source: Bureau of Labor Statistics



The consumer price index (CPI) rose 2.6% for the trailing 12 months, the largest increase since 2018. CPI increased 0.6% for March, with about half of the gain coming from a 9.1% rise in gasoline prices. Core CPI, which excludes food and energy, rose 1.6% for the trailing year. Given the onset of the pandemic and its economic fallout in March of 2020, near term inflation metrics are likely to show larger year over year increases. The Fed's preferred inflation metric, core PCE, rose 1.8% for the trailing year.

# Market update

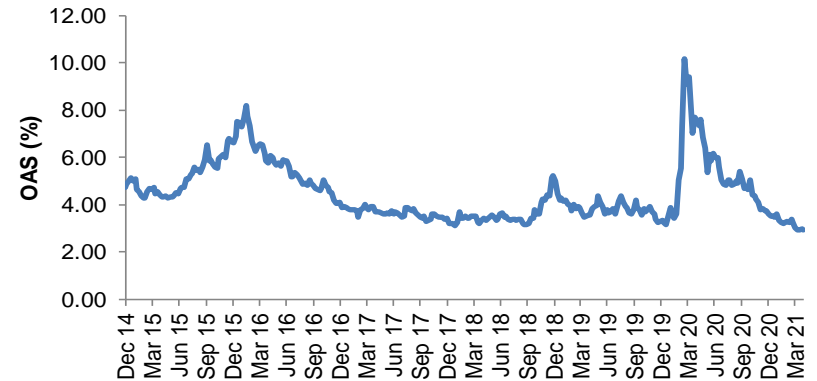
**U.S. Investment Grade Corporate Spreads (weekly)**



Source: Bloomberg Barclays

Corporate spreads ended April five basis points lower than the pre-coronavirus tightness in December 2019. IG issuance, while still robust, is running 30% below last year's record.

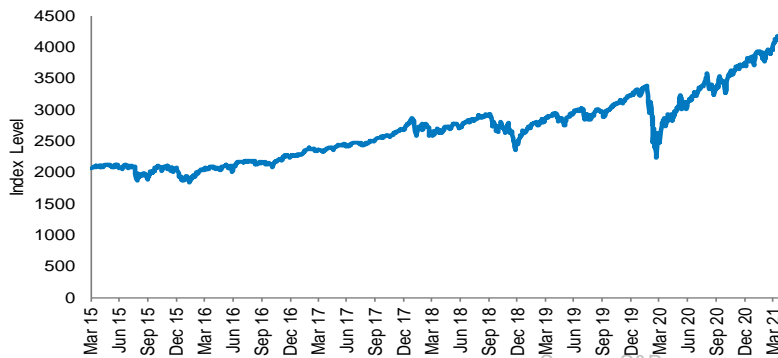
**U.S. High Yield Corporate Spreads (weekly)**



Source: Bloomberg Barclays

HY continues to be in strong demand; issuance is up 94% versus last year's record and there has been a recent uptick in first time issuers.

**S&P 500**



Source: S&P

The S&P 500 rose another 5% in April, bringing the year-to-date increase above 11% and setting another record for highest monthly close.

**U.S. 10 Year Treasury Yields**



Source: Bloomberg

After 10-year Treasury yields nearly doubled in the first quarter, rates fell as low as 1.54% in April before ending at 1.63%.

# News & nuggets

---

## **Unemployment:**

- Payrolls rose by 916,000 in March, easily surpassing the consensus estimate of 675,000 new jobs. The unemployment rate declined to 6.0% from 6.2% and underemployment fell to 10.7% from 11.1%. Workforce participation increased 0.1% to 61.5%. Despite the continued strengthening of the labor market, approximately 8 million fewer American are employed than prior to the onset of the coronavirus pandemic.

## **Virus & Vaccine:**

- As of the end of April, 43% of the U.S. population has received at least one dose, with 30% of the population fully vaccinated, up from 29% and 16%, respectively, at the end of March. The U.S. has averaged 2.6 million vaccines administered per day over the last 7 days, up from 2.5 million per day at the end of March, but 11% below the prior week.
- A severe second wave struck India, with daily cases peaking near 400,000, almost four times as high as the peak in the first wave. In April, India reported 6.6 million new cases. The country has administered over 150 million doses of vaccines out of a population of 1.3 billion.

## **Global economy:**

- By contrast to the strong U.S. growth, Eurozone GDP declined 0.6% in the first quarter. As this is the second consecutive quarter with negative growth, the region is considered to be in a technical recession. E.U. Covid support funds are set to be received by countries in the second half of the year, which should help improve economic prospects for the region. Vaccination plans have been running behind schedule, but the E.U. is targeting 70% of adults to receive a vaccination this summer. Hopes for accelerating vaccinations and economic rebound from loosening restrictions suggest a second half economic improvement.

# News & nuggets

---

## **Monetary policy:**

- As expected, the Fed did not raise rates and kept asset purchases at \$120 billion per month at the April 27-28 meeting of the Federal Open Market Committee. Markets were looking for hints regarding prospective tapering of asset purchases; while noting progress on vaccines and economic recovery, the Fed highlighted that substantial further progress is needed on the unemployment front and did not discuss a timeline for tapering purchases. The Fed acknowledged rising inflation, but cited 'transitory factors' as being largely responsible.

## **Fiscal Policy:**

- After signing the latest Covid stimulus plan and unveiling his \$2.25 trillion infrastructure proposal in March, President Biden proposed the American Families plan. The \$1.8 trillion plan includes spending on childcare, paid family leave and increased spending on education. To cover the proposed costs, the plan includes personal income tax hikes.

## **Earnings:**

- With 60% of companies reporting through the end of April, first quarter corporate profits have grown 45.8% year over year. These results have meaningfully exceeded expectations for the first quarter profits growth, which as of March 31, was for 23.8% growth. The 86% of companies beating expectations is the highest level since FactSet began tracking this measure in 2008. The second quarter is expected to be even stronger with growth of 58.3% and revenue growth of 18.1%. For the full year 2021, corporate earnings are projected to grow 31.7% with revenue growth of 10.9%.

# Outlook and conclusions:

---

## **Outlook:**

- U.S. Economic data continues to improve to a degree nearly unimaginable last year. The progress on vaccines and the path to broader re-openings in the U.S. point to continued strength, in particular given the massive fiscal policy tailwinds near-term. The Fed has acknowledged this recovery, but opted to maintain its high degree of accommodation without signaling a future reduction in support. These factors combine to suggest strong performance from risk assets broadly. Valuations, though, reflect the positive news to date as well as optimism for the future. Of note, the U.S. recovery stands apart from much of the world, which continues to face challenges either directly from the virus itself or the economic impacts resulting from combatting it. This divergence highlights the appeal of U.S. assets in a global context and with the yield pick-up it offers, U.S. fixed income is likely to remain in demand. A potential headwind to the U.S. economic recovery could be the personal and corporate tax hikes under discussion, though their path to approval is unclear given the extremely narrow majorities Democrats hold in Congress. Though in historical context valuations are not cheap for most financial assets, between the strength of the economic recovery and the fiscal and monetary policy supports in play, the demand for non-governmental fixed income seems poised to continue.



# Fixed income returns as of April 30, 2021

Index Returns as of April 30, 2021				
	Total Return (%)		Excess Return (%)	
	Month-to-Date	Year-to-Date	Month-to-Date	Year-to-Date
U.S. Aggregate	0.79	-2.61	0.08	0.43
U.S. Treasury	0.75	-3.53	-	-
Intermediate	0.38	-1.39	-	-
Long	2.33	-11.50	-	-
TIPS	1.40	-0.09	-	-
Agencies	0.42	-1.18	0.05	0.19
U.S. MBS	0.55	-0.55	0.11	0.26
ABS	0.14	-0.02	0.04	0.19
CMBS	0.94	-1.40	0.39	0.84
U.S. Credit	1.06	-3.44	0.12	1.05
Intermediate	0.69	-1.40	0.24	0.29
Long	1.73	-6.81	-0.09	2.32
Industrial	1.10	-3.90	0.03	1.28
Utility	1.67	-5.00	0.42	1.31
Financial	0.97	-2.59	0.26	0.62
Non-Corporate	0.80	-2.52	0.06	0.88
Aaa	0.57	-2.06	0.01	0.40
Aa	1.19	-3.64	0.18	1.24
A	1.08	-3.88	0.14	0.67
Baa	1.10	-3.27	0.11	1.43
High Yield	1.09	1.95	0.70	3.31
Floating Rate Notes	0.06	0.28	0.06	0.25

Source: Bloomberg Barclays

# Disclosures

---

## **All investments involve risk, including the possible loss of principal.**

This is not intended to serve as a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. Information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. This publication is prepared for general information only. This material does not constitute investment advice and is not intended as an endorsement of any specific investment. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investment involves risk. Market conditions and trends will fluctuate. The value of an investment as well as income associated with investments may rise or fall. Accordingly, investors may receive back less than originally invested. Investments cannot be made in an index. **Past performance is not necessarily a guide to future performance.**

Taplin, Canida & Habacht, LLC is a registered investment adviser and a wholly owned subsidiary of BMO Asset Management Corp., which is a subsidiary of BMO Financial Corp. BMO Global Asset Management is the brand name for various affiliated entities of BMO Financial Group that provide investment management and trust and custody services. Certain of the products and services offered under the brand name BMO Global Asset Management are designed specifically for various categories of investors in a number of different countries and regions and may not be available to all investors. Products and services are only offered to such investors in those countries and regions in accordance with applicable laws and regulations. BMO Financial Group is a service mark of Bank of Montreal (BMO).

BMO Asset Management Corp., BMO Private Bank, and BMO Harris Bank N.A. are affiliated companies. BMO Private Bank is a brand name used in the United States by BMO Harris Bank N.A. BMO Harris Financial Advisors, Inc. is a member FINRA/SIPC, an SEC registered investment adviser and offers investments, advisory services and insurance products. Not all products and services are available in every state and/or location.

The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Basis points (bps) represent 1/100th of a percent (for example: 50 bps equals 0.50%)

Investment products are: **Not A Deposit | Not FDIC Insured | No Bank Guarantee | May Lose Value**

©2021 BMO Financial Corp.

SCT# 12754216