

March 31, 2023

First Quarter Fixed Income Letter to Clients

The U.S. Federal Reserve Board (Fed) provided a 25-basis point increase to the short-term bank borrowing Federal Funds interest rate on March 22, bringing the total rate increases over the past year to 450 basis points (4.50%).

After announcing this rate increase, the Fed's press release addressed the recent concerns about the US banking system in the aftermath of the collapse of Silicon Valley Bank and Signature Bank, noting that the US banking system is sound and resilient. And although these developments are likely to result in stricter lending standards, it is uncertain how much stricter, and what the effects will be on the economy. Containing inflation remains the number one focus for the Fed, though the path to that goal likely will involve less rapid rate hikes in the future based on the consensus view. The Fed anticipates that "some additional policy firming may be appropriate" in order to attain a stance of monetary policy that is sufficiently restrictive to bring inflation to its 2.00% target rate. This is a change in language forecasting "ongoing increases" in the Federal Funds Rate from the Fed's February statement. Both the Consumer/Producer Price Index releases in April will be very important data points for the markets to determine how the Fed policy will look over the near term.

The total return of the S&P Municipal Bond Index was +2.56% for the quarter. We feel that for investors in a high federal tax bracket, tax-free municipal bonds offer very good value at these levels.

The US Treasury 10-year bond began the year at a yield of 3.79% and ended the quarter at 3.48%; while the 30-year bond, the bellwether for long term duration, began the quarter at around 3.88% and ended at 3.67%.

Fixed income portfolio management requires a disciplined approach to interest rate exposure that seeks credit diversity and consistency. Investment grade credits on short and intermediate term bonds continue to offer strong value for our clients.

Evan Slater

Fixed Income Portfolio Manager