



The Long and the Short of It

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In 2019, credit markets exhibited a high level of volatility due to a number of factors. Overall, our fixed income benchmark, the Barclays Aggregate Intermediate-Term Index, provided a total return of 6.8% for the year, with corporate and junk bonds leading the charge with double-digit returns. The majority of our clients are invested in tax-free municipal bonds which also provided healthy returns. The benchmark 10-year U.S. Treasury started 2019 at 2.66%, fell as low as 1.47% by early September and ended the year yielding 1.92%. At the same time, the Federal Reserve cut the Fed Funds rate three times from a range of 2.25-2.50% at the beginning of the year to a range of 1.50-1.75% by year-end.

Short-term and long-term interest rates are determined by separate forces. In the case of short-term rates (the Fed Funds rate), the Federal Reserve has the primary responsibility for setting the level of rates and then utilizes adjustments in banking reserve requirements and open market operations (the purchase and sale of securities in the open market) to maintain the Fed Funds rate within their target range. Recently, we've seen a lot of news in the press about the Fed pumping billions of dollars per day into the system to maintain their target Fed Funds rate.

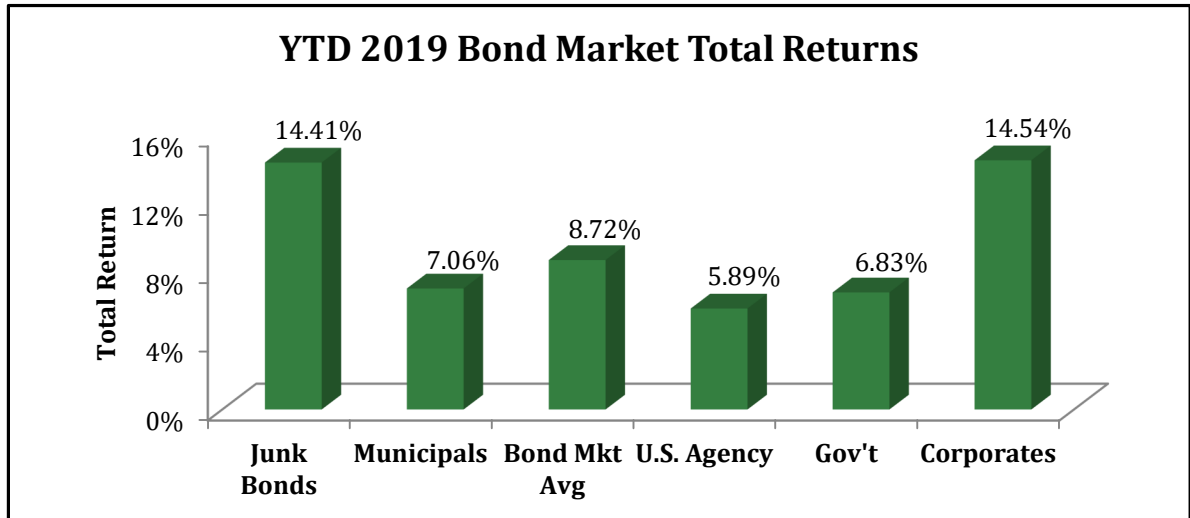
Longer-term interest rates are primarily determined by investor expectations regarding future economic growth and inflation. When economic growth expectations are high, investors typically demand higher yields on longer-term bonds, and when expectations are less optimistic, investors will settle for a lower yield. As investors fretted about a possible recession during the summer of 2019, longer-term bond yields plummeted. The fourth quarter then saw yields move substantially higher as a recession didn't materialize and investors became more optimistic about increasing global growth in 2020. Investors are also anticipating a relatively quiet year on the inflation front.

On the whole, 2019 was a great year for bond investors. As we move into 2020, we would generally agree that global economic growth is likely to accelerate and that the Federal Reserve is unlikely to make any adjustments to the current Fed Funds target range. We were pleased with the returns on our bond allocations in 2019 and expect reasonable returns in 2020.



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Source: Wall Street Journal

Bond Market Yields 12/31/2019

Average Money Market Fund	0.58%	10 Yr. AAA Muni Bond	1.48%
5 Yr. AAA Muni Bond	1.14%	10 Yr. AA Corporate Bond—Long Term	2.48%
5 Yr. AA Corporate Bond—Intermediate	2.00%	10 Yr. U.S. Treasury	1.92%
		30 Yr. Fixed Rate Mortgage (Conforming)	3.86%

Source: Bankrate.com

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