OSBORNE PARTNERS
Capital Management, LLC

Credit Markets: Strong Economic Growth and Inflation Ahead

By: Chuck Else

April 2021

Bond yields rose dramatically in the first quarter.

Bond yields rose dramatically in the first quarter as investors began pricing in the likelihood of the strongest economic growth in the U.S. and globally in decades and corresponding inflation concerns. The rapid rise in interest rates led to bonds being the only asset class in negative territory on a total return basis during the quarter. The benchmark 10-year Treasury bond started the year yielding 0.93% and finished the first quarter yielding 1.74%, a whopping 87% increase!

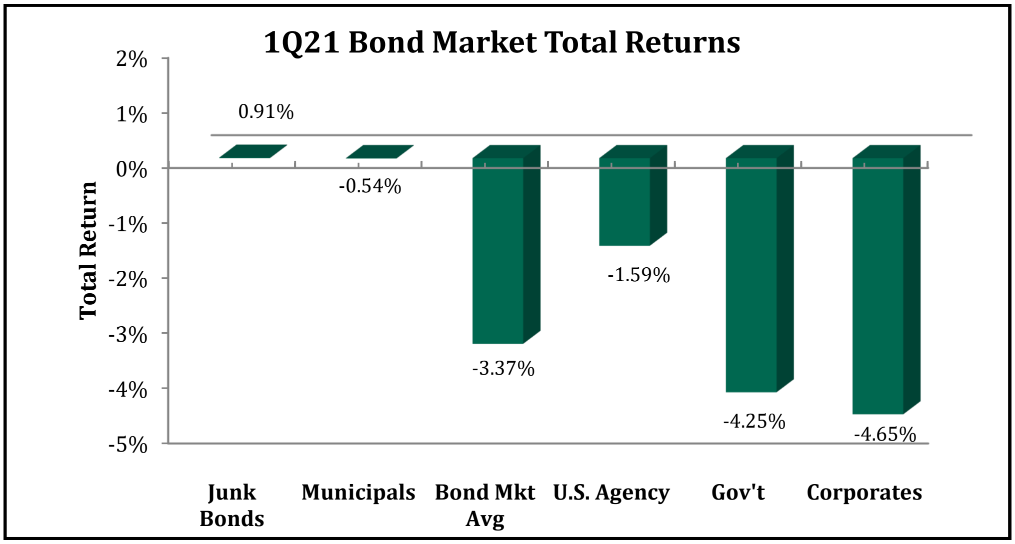
At the same time, the slope of the yield curve skewed positively, with longer-term rates moving up significantly more than short-term rates. All else being equal, the slope of the yield curve is generally a good indicator of where the economy is headed, so this is good news for investors in assets tied to economic growth. In particular, economically-sensitive equities and natural resources were big beneficiaries of the increase in economic growth and inflation expectations for the quarter.

In their March meeting, the Federal Open Market Committee (FOMC) revised their expectations for real GDP growth in the U.S. to 6.5% in 2021, versus an expected 4.2% at the start of the year. The FOMC also said it sees the unemployment rate improving to 4.5% by the end of the year and returning to its pre-pandemic level of 3.5% by 2023. As the economy continues to reopen, the fundamental strength of the U.S. economy, aided by substantial monetary and fiscal stimulus, appears to be intact and improving faster than most pundits had previously forecast.

We continue to see the fixed income asset class as challenging in this environment, as the likelihood that rates continue to move up with further strengthening in the U.S. economy being the most probable outcome. As a result, we are being very selective in putting new money into fixed income at this time.

OSBORNE PARTNERS
Capital Management, LLC

Credit Markets: Strong Economic Growth and Inflation Ahead



Source: Wall Street Journal

Bond Market Yields 3/31/2021

Average Money Market Fund	0.10%	10 Yr. AAA Muni Bond	1.06%
5 Yr. AAA Muni Bond	0.50%	10 Yr. AA Corporate Bond—Long Term	2.28%
5 Yr. AA Corporate Bond—Intermediate	1.19%	10 Yr. U.S. Treasury	1.74%
		30 Yr. Fixed Rate Mortgage (Conforming)	3.27%

Source: Bankrate.com

The opinions expressed herein are strictly those of Osborne Partners Capital Management, LLC ("OPCM") as of the date of the material and is subject to change. None of the data presented herein constitutes a recommendation or solicitation to invest in any particular investment strategy and should not be relied upon in making an investment decision. There is no guarantee that the investment strategies presented herein will work under all market conditions and investors should evaluate their ability to invest for the long-term. Each investor should select asset classes for investment based on his/her own goals, time horizon and risk tolerance. The information contained in this report is for informational purposes only and should not be deemed investment advice. Although information has been obtained from and is based upon sources OPCM believes to be reliable, we do not guarantee its accuracy and the information may be incomplete or condensed. Past performance is not indicative of future results. Inherent in any investment is the possibility of loss.