

Market Commentary



Some of These Things Are Not Like the Others

Since early July 2016, the yield on the 10-year Treasury has rocketed from 1.38% to nearly 3%. Investors in intermediate Treasuries have lost more than 7% over that period as rising interest rates have resulted in falling bond prices.

Some bonds are not like the others. Over that same time frame, high-yield corporate bonds, floating rate loans, foreign bonds and even high-yielding municipal bonds have risen nicely: mid-single digits to low double-digit rates. The prices of these asset classes are less influenced by interest rates and more influenced by other factors. Everything from monetary policy, currency, economic health, resetting interest rates and a much longer list of factors can, and do, influence different bonds and their prices.

Very broadly, two risks drive bond prices: interest rates and credit spread. Interest rate risk, measured by duration, captures the change in bond price from the up and down movements of different interest rates. Credit spread, broadly speaking, is the premium paid out to investors to compensate for the possibility of default.

Headlines and news about the bond market typically reference the U.S. Treasury rates, which are the most sensitive to rising interest rates. The reality is that bond sectors and asset classes behave differently to increases in the fed fund rates because interest rates aren't the only factor to consider.

This environment is not like the other, the one of falling rates and easy monetary policy. We can definitively say that we are in an environment of generally rising interest rates, as well as higher volatility, and that calls for looking at bonds that aren't like others. The questions are what and when? A rules-based approach for identifying rising and falling trends is ideal for the fixed-income arena.

Our investment process is not like the others. We have long used a rules-based approach to identify inflection points to signal when an asset class, or investment, is to be bought or sold. Flexibility to move across all the available bond sectors and asset classes allows for promising investment opportunities in any interest rate environment. In a time that is not like the others, look to an asset manager, and bonds that are not like the others.



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