

# FIXED INCOME MARKET COMMENTS

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We've gotten a few questions on why several bond funds have had negative returns over the past several days. Due to the recent market volatility there have been dislocations in the bond market, which were especially noticeable in the corporate and municipal markets. This has occurred for a few main reasons.

1. Investors are rushing to raise cash and selling their most liquid positions, including bonds and gold.
2. Levered investors are forced to sell positions at any price.
3. Bond dealers are short staffed as employees are beginning to work from home (this may have helped to push fixed income spreads higher).

We've seen dislocations occur in the bond market before during times of stress (especially during 2008-2009). Our view is that the bond market does not have any structural problems and that defaults will remain low for high quality issuers. The Fed is actively trying to help and has recently launched several programs including open ended quantitative easing (bond purchases) and measures to support corporations and state and local governments. We fully expect the Fed will announce additional programs if necessary. More fiscal stimulus from the government should also help calm the markets. Also keep in mind that banks are well capitalized, and the US economy entered this period in a position of strength. Going forward, we believe the bond market dislocations are temporary and we expect them to clear.

At Winthrop Wealth, fixed income serves three roles in diversified portfolios: ballast, stability, and income.

- **Ballast:** Equities and fixed income can sometimes have a negative correlation, meaning they move in opposite directions. Although this relationship was not as strong over the past several weeks, we suspect it will return to normal.
- **Stability:** As part of our overall process, we ensure that our client's upcoming cash flow needs are accounted for. Generally, we will invest the amount of upcoming cash flows in high-quality short-term fixed income. This adds stability to the portfolio as high-quality short-term fixed income has lower volatility than most asset classes.
- **Income:** Bond interest payments provide a predictable source of income. In our opinion, the best course of action is to diversify across bond types to achieve the best possible income while still providing the necessary ballast and stability.

Please let us know if you have any questions or would like to discuss further.

## DISCLOSURES:

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Past performance is no guarantee of future results. It is important to remember that no investment strategy assures success or protects against loss. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.