Fixed Income Quarterly Commentary

Growth Through Stability

Q1 ▪ 2021

Market Update

Fixed income markets struggled in the first quarter as most assets repriced to a new economic outlook. Markets started to price in additional fiscal support and less Covid restrictions. While this is generally positive for the economy, it increases the likelihood of inflation. Yields on medium and longer-dated treasury bonds rose, with the 10-year treasury ending the quarter at 1.74%, an increase of 0.82% for the quarter. As treasury yields rose, pricing on existing bonds fell and led to negative returns in the first quarter as investors demanded more compensation to offset potential inflation. This is a healthy adjustment in fixed income markets as economic prospects have improved. This will increase income over the longer term and offset the declines for the quarter.

Taxable and High Yield Bonds

Taxable bonds struggled with rising rates during the quarter. Investment grade corporate bonds have the highest exposure to interest rates and posted return of -4.50%[1] for the first quarter. High yield bonds fared much better in the quarter and returned 0.90%[1] . High yield issuers benefited from better economic prospects and have less exposure to interest rates.

After a difficult earnings year in 2020, corporate bonds should benefit from growing cash flows in 2021. At AMI, we select our corporate bonds based on stable cash flows and improving balance sheets. While some of our companies struggled during the pandemic, none of the companies in AMI's taxable or high yield portfolio have filed for bankruptcy. We continue to firmly believe that all AMI holdings will make their interest and principal payments even if economic conditions worsen.

Municipal Bonds

Tax exempt municipal bonds outperformed investment grade taxable bonds in the first quarter. 1-3 year municipal bonds returned 0.19%[2], 3-7 year bonds returned -0.30%[2], and 7-12 year bonds returned -0.64%[2] in Q1. The rise in interest rates was partially offset by the $350 billion fiscal stimulus for state and local governments. In total, municipalities have received over $1 trillion in support since the beginning of the pandemic. This support, plus the prospect for higher tax rates, is creating additional demand for tax free income.

At AMI, we continue to focus on essential services (water, sewer, electric), and redevelopment agencies (backed by property taxes with no pension risk). Even after the large amount of federal aid, many issuers will struggle longer term with rising pension expense.

AMI
ASSET MANAGEMENT

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Disclosures

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AMI Asset Management (AMI) is an independent investment management firm registered with the Securities and Exchange Commission since 1994. Registration does not imply a certain level of skill or training. AMI provides discretionary asset management services to institutional and individual clients through separately managed accounts using seven equity and fixed income strategies.

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To receive a complete list of composite descriptions, GIPS® Reports, or the latest copy of our ADV Part 2 contact Katharine Kim at (424) 320-4003 or write AMI Asset Management Corporation, 10866 Wilshire Boulevard Suite 770, Los Angeles, California 90024, or Katharine@amiassetmanagement.com.

1. Figures presented on page one are from the below indices as of 3/31/21 ICE BofAML US Corporate Index, ICE BofAML US High Yield Index

2. Figures presented on page one are from the below indices as of 3/31/21 ICE BofAML 1-3 Year US Municipal Securities Index, ICE BofAML 3-7 Year US Municipal Securities Index, ICE BofAML 7-12 Year US Municipal Securities Index.