

## **AHB Bond Market Update:**

### **Separately Managed Bond Portfolios**

The US government has instituted initiatives to combat the spread of COVID-19. The most significant were several directives requesting the public to distance themselves from others as a means of combating the spread of COVID-19. The Federal Reserve, has engaged in a variety of measures to soften and reduce the negative impact on the economy resulting from distancing of individuals both in business and socially.

The actions taken by the Federal Reserve along with governments' Fiscal policy of increased spending and lowered tax rates has been helpful in reducing the impact of shutting down the US economy.

Having passed through what appears to possibly be the worst of the pandemic, equity markets have risen with the expectation of an improving economy. The expectation is that the levels of unemployment will decline as businesses reopen and employees return to work. Profits will start to replace losses in business. The fear of deflation will subside as investors expect the economic decline to stabilize and growth to be restored.

Interest rates on US Government bonds and the highest quality investment-grade Corporate and Municipal bonds will begin to rise as the fear of deflation is reduced and replaced with the potential for inflation to rise with an improving economy. Interest rate yields reflect the spread above a forecast of inflation/deflation as well as a rate of return that includes the time (duration) and quality associated with a bond.

The opportunity now exists for AHB Portfolio Managers to identify investment-grade bonds that have become mispriced in the bond markets as investors rushed to invest primarily in the highest quality investment-grade bonds. As interest rates declined sharply on US Government bonds and the highest quality investment-grade bonds, interest rates for other than the highest rated investment-grade bonds did not follow in the same manner.

Today, AHB Portfolio Managers are actively identifying investment opportunities in investment-grade rated bonds for client portfolios. AHB's 40 year history in managing client bond portfolios provides a critical advantage to capitalize on this opportunity for client bond portfolios as well as the bond portion of client balanced portfolios.

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