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Fixed Income Update

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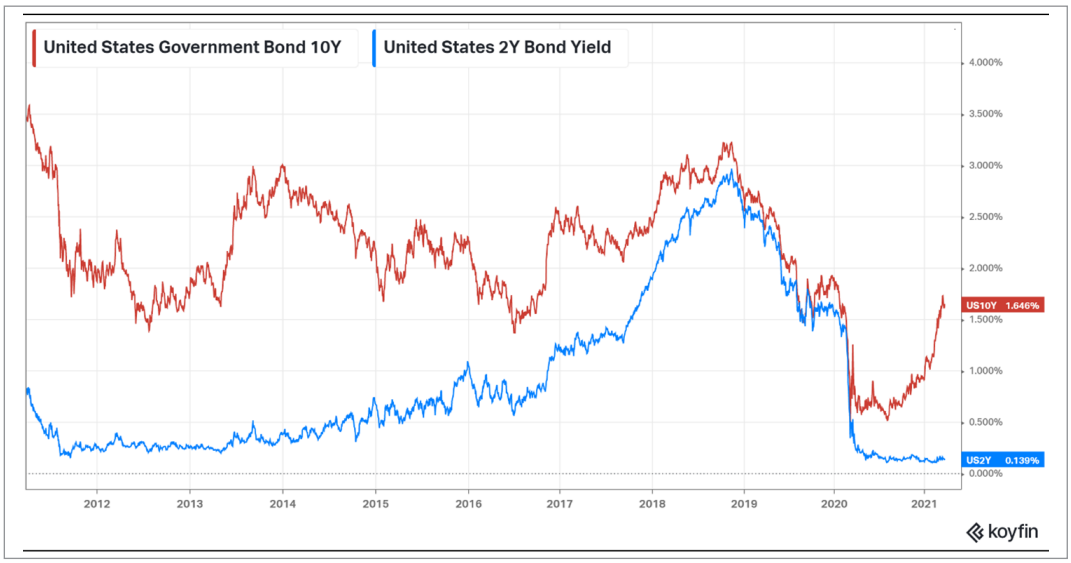
Over the last few months, intermediate and longer-term Treasury yields have begun to rise. The 10 Year Treasury is currently at 1.64%, about 100 basis points higher than last spring and summer. The increase in yields has caused many market participants to become concerned about the implications to their portfolios.

Key Points

- Yields moving higher due to growth expectations.
- Yields are still very low relatively speaking.
- Adding exposure to floating-rate bank loans.

While the increase in yields may seem extraordinary, it is not remarkable when you consider the starting point. The advent of the pandemic and subsequent uncertainty pushed yields to extremely low levels last March. The recent increase has only pushed the 10 Year Treasury up to the lower bound of the range it has been in for the last 10 years. When viewed from this perspective, the overall level of yields is still very low and continues to be accommodative of a recovery.



It also is important to understand why yields are moving higher. Higher yields caused by higher inflation expectations have different implications for investments than higher yields due to stronger expected growth. We believe the recent move in yields is largely a function of higher expected economic growth. In the initial months of the pandemic, growth slowed sharply as shut-downs affected businesses across the globe. However, the vaccine rollout and substantial fiscal stimulus have driven a reversal in growth expectations. Most economists are now forecasting real GDP growth of more than 5% for 2021 as shutdowns are lifted and consumers begin to spend again. We acknowledge that inflation readings will likely be higher in the next few months, but this is largely a result of lower inflation last year combined with supply chain disruptions due to lockdowns. As we move past last year's low inflation readings, and supply chains are restored, inflation will likely revert to its long-term trend.

Considering the move higher in yields and our outlook for higher growth, we have made some changes to the fixed income exposure in our portfolios. We have added exposure to floating-rate bank loans in several of our strategies. Historically, this sector has performed well in rising rate environments and currently has a relative yield advantage over similar credit sectors. To fund this allocation, we took profits in an investment-grade corporate bond position. The strategies impacted by this change include: PFG Tactical Income Strategy, PFG Balanced Strategy, TPFG Income SMA, TPFG Balanced SMA, and TPFG Dynamic Income.