1Q2019 Review: Taxable Fixed Income

Short to intermediate Treasury yields declined throughout the first quarter as of March 19th, as the 30-year Treasury was flat at roughly 3.00%. The Treasury yield curve remains slightly inverted out to 5-years. This has benefited the Agency multi-step securities that we hold in portfolios, as we have witnessed an increase in calls as coupon steps are not justified by the inversion of the yield curve.

By the time this overview is received, the Fed will have made a decision to hold rates steady or hike the fed funds target rate. We expect the Fed Funds rate to remain unchanged at 2.25-2.50. In fact, the odds are higher that the next move will be a rate cut as opposed to a hike. The current rate-cut probability by the end 2019 is 25.1% versus a 0.5% chance of a hike, showing that market participants have major doubts on future rate hikes. We should receive additional clarity as to the direction of interest rates at upcoming Fed meetings.

With the uncertainty centered on the interest-rate environment, our portfolios have benefited from the inclusion of callable Build America Bonds, as they have provided a higher level of yield per unit of duration than shorter non-callable securities. Our taxable portfolios have also benefited from the inclusion of long tax-free municipals, as we have seen outperformance in that space. We will continue to manage portfolios defensively until more clarity on interest rates is revealed, and we will take advantage of opportunities as they become available.

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