Clark Capital Management Group

Portfolio Commentary

Navigator® Fixed Income SMA

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2020: Time to Play the Stimulus Music

The fourth quarter of 2019 and last year of the decade ended in a bullish froth in both equities and bonds. The S&P 500 closed the year up 31.48%. The Bloomberg Barclays Aggregate Bond Index finished up 8.72% and the Municipal Bond 5 Year Index was up 5.45%.

Fearful of an economic slowdown and flattening yield curve in the third quarter, the Fed cut interest rates on August 1st and September 19th. Entering the fourth quarter of the year, the bond market appeared to be pricing in a third rate cut of 25 basis points depending on the October economic data. Then rumors started to surface of liquidity problems in the repo market.

The Fed announced on October 11th that it would begin buying Treasury bills resulting in several hundred billion dollars pumped into the system for liquidity in the quarter. In addition, on October 11th the President announced a Phase One trade deal with China. Finally, as October closed, the Fed cut rates for a third time during the year by an additional 25 basis points.

There was Dancin'... and Singin'... and Movin' to the Stimulus...

The October events of liquidity in the repo markets, a Fed rate cut and the possibility of the de-escalation of the tariff war with China paved the way for the "risk-on" rally into year-end:

- The yield curve steepened, which is a positive sign for now in averting a potential economic slowdown
- Investment grade corporate bond spreads tightened
- High yields continued to be refinanced with ease
- BB high yield credits continued to rally in spread versus Treasuries
- And of course, the S&P 500 broke out to new highs

Now first it wasn't easy...

The fixed income rally that we saw in 2019 began during the 4th quarter of 2018. As we entered 2019, we said, "*We are not economists, nor fortune tellers; however, we cannot completely discount what the data is saying...and for now, it points to the likelihood of lower rates.*"

That seemed to be a prescient statement as 2019 turned out to be a pretty good year for fixed income. We really saw the benefits of using a barbell structure to construct our portfolios when the Fed became accommodative.

Perhaps the Fed is building another bubble or perhaps inflation surprises to the upside. In my opinion, as a long time tactical fixed income manager, I would go with Fed bubble. In either scenario, we believe an actively managed bond SMA can adjust to market forces whether its credit or interest rate risk.

Navigate Your Future. Enjoy the Journey.

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

Bloomberg Barclays U.S. Aggregate Bond Index: The index is unmanaged and measures the performance of the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries and government-related and corporate securities that have a remaining maturity of at least one year.

The Barclays Capital 5 Year GO Municipal Bond Index represents the performance of long-term, investment grade tax-exempt bonds with maturities ranging from four (4) to six (6) years.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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