GW&K INVESTMENT MANAGEMENT

TAXABLE BOND
MONTHLY COMMENTARY

MARCH 2021

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Fixed income markets remained volatile in March as rates continued to move sharply higher. The ongoing recovery that is already unfolding amid wide-scale vaccinations and reopenings received a further boost from $1.9 trillion of federal stimulus and the potential for still more. The momentum of the recovery and the massive scale of stimulus, combined with accommodative monetary policy, further exacerbated fears of inflation and helped close out the worst quarter for fixed income assets since 1981.

The Federal Reserve maintained its extremely accommodative policy stance, leaving its $120 billion of monthly asset purchases intact and continuing to project a late 2023 first-hike liftoff. Despite an upward revision to its GDP estimates for this year and next, the Committee was steadfast in its commitment to keeping rates low until inflation reaches a level sustainably above 2%. Chair Powell was similarly dovish in his public comments, emphasizing the importance of achieving the Fed's stated goals before members would even consider a policy change.

In contrast to the "not yet" messaging from the FOMC, the Treasury market registered confidence in the speed and strength of the recovery. The yield curve touched its steepest level in several years as the front end remained anchored by the Fed while intermediate and long rates returned to pre-pandemic levels. The selloff was the result of both rising real yields, which pushed higher on improving growth prospects, and elevated inflation break-evens, which sit near decade highs.

Corporate credit excess returns were nearly flat, as strength in underlying fundamentals and a risk-on rally in equities were met with historic levels of new issuance. The investment grade primary market had its fourth most active month ever, lagging only the three months between March and May of 2020 that saw a post-lockdown, Fed-fueled frenzy. High yield, meanwhile, broke decisively into record territory, as borrowers rushed to market to refinance existing debt. The corporate default pipeline also continues to shrink, contributing to net ratings upgrades across the space.

Mortgages slightly outperformed similar duration Treasuries. Elevated prepayment speeds and higher rate volatility weighed on spreads, but this was more than offset by the Fed's ongoing purchases of 40% of gross supply. The MBS Index continued to extend amid rising rates, lengthening by more than half a year to its longest duration since 2019. Contributing to this shift was the recent jump in the rate of a 30-year fixed, which rose to 3.17% from a low of 2.65% in January.

As economic growth continues to normalize and fiscal and monetary authorities remain accommodative, the bias in interest rates appears to be higher. The ongoing vaccination campaign, the potential for more fiscal stimulus, and loose monetary policy are likely to exert upward pressure on both real rates and inflation expectations. However, the speed and ultimate extent of any further selloffs will be limited by the economy's ability to absorb higher borrowing costs, so the pace of progress from here may moderate in the months ahead.

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U.S. Treasury Market - March 31, 2021							
	3/31/21	Yield Change (bps)			Performance		
Maturity	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-year	0.16%	+3	+4	+4	-0.05%	-0.04%	-0.04%
5-year	0.94%	+21	+58	+58	-0.91%	-2.46%	-2.46%
10-year	1.74%	+33	+82	+82	-3.07%	-7.02%	-7.02%
30-year	2.42%	+26	+77	+77	-6.14%	-15.84%	-15.84%

Source: Bloomberg, FactSet

Performance represents total returns of the Bloomberg Barclays U.S. Treasury Bellwethers Index for the maturities shown

INDEX CHARACTERISTICS AND PERFORMANCE

March 31, 2021	CHARACTERISTICS			PERFORMANCE		
Index	Yield to Worst	OAD (Years)	OAS (bps)	MTD	QTD	YTD
Bloomberg Barclays U.S. Aggregate Bond	1.61%	6.40	31	-1.25%	-3.37%	-3.37%
U.S. Treasury	1.00%	6.79	-1	-1.54%	-4.25%	-4.25%
Bloomberg Barclays U.S. Government Related	1.45%	6.00	44	-0.83%	-2.86%	-2.86%
Bloomberg Barclays U.S. Corporate Investment Grade	2.28%	8.48	91	-1.72%	-4.65%	-4.65%
Bloomberg Barclays U.S. Mortgage-Backed Securities	1.82%	4.09	12	-0.51%	-1.10%	-1.10%
Bloomberg Barclays U.S. Asset-Backed Securities	0.56%	2.08	35	-0.16%	-0.16%	-0.16%
ICE BofAML Fixed Rate Preferred Securities	2.33%	4.73	115	1.63%	-1.03%	-1.03%
Bloomberg Barclays High Yield	4.23%	3.87	310	0.15%	0.85%	0.85%
Bloomberg Barclays High Yield - BB	3.40%	4.67	227	-0.28%	-0.15%	-0.15%
Bloomberg Barclays High Yield - B	4.49%	3.08	334	0.45%	1.16%	1.16%
Bloomberg Barclays High Yield - CCC	6.55%	2.60	548	1.09%	3.58%	3.58%
Bloomberg Barclays High Yield BB 1-5 Year	2.57%	2.28	207	0.44%	1.00%	1.00%

Source: FactSet

March 31, 2021	CHARACTERISTICS		
Strategy	Yield to Worst	Current Yield	OAD (Years)
GW&K Short-Term Focused High Income Strategy	2.91	4.90	2.90
Bloomberg Barclays High Yield BB 1-5 Year	*2.57*	*5.26*	*2.28*
GW&K Corporate Bond Opportunities Strategy	3.32	4.71	5.00
60% Bloomberg Barclays High Yield / 40% Bloomberg Barclays U.S. Credit	*3.41*	*4.69*	*5.61*
GW&K Total Return Bond Strategy	2.78	4.37	5.43
60% Bloomberg Barclays Govt/Credit / 40% Bloomberg Barclays High Yield	*2.60*	*3.69*	*5.97*
GW&K Enhanced Core Bond Strategy	2.26	3.63	5.89
GW&K Core Bond Strategy	1.95	3.22	6.08
Bloomberg Barclays U.S. Aggregate Bond	*1.61*	*2.51*	*6.40*
GW&K Intermediate Taxable Bond Strategy	1.56	3.27	3.91
Bloomberg Barclays U.S. Intermediate Aggregate Bond	*1.29*	*2.32*	*4.15*
GW&K Short-Term Taxable Bond Strategy	0.89	2.80	3.10
Bloomberg Barclays 1-5 Year Govt/Credit	*0.56*	*1.84*	*2.79*

Source: Bloomberg, FactSet

Disclosures

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