Abner Herrman & Brock
asset management

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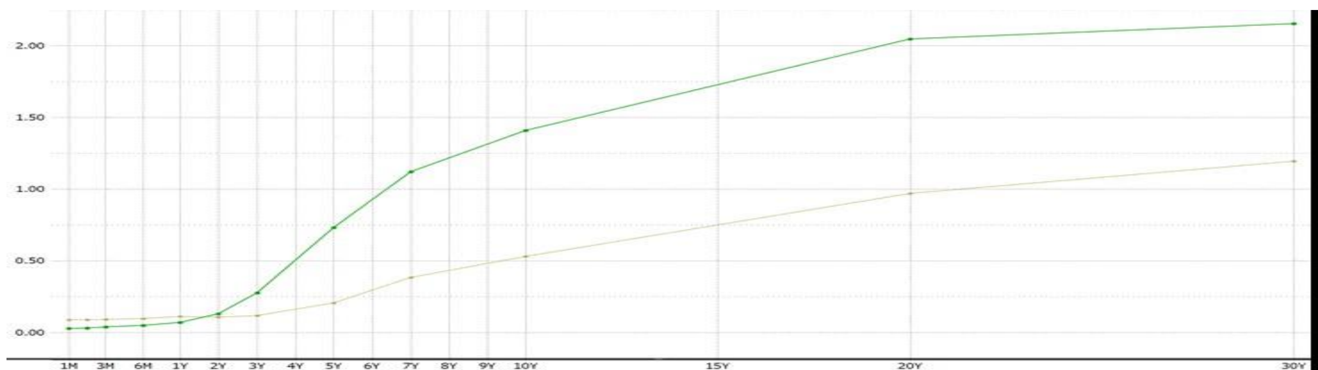
Steepening Yield Curve

- Over the last 7 months the U.S. Treasury yield curve has shifted steeper, with a noticeable amount of change occurring over the last few weeks. Long-term treasury yields are rising while shorter-term Treasury yields are remaining relatively unchanged.

- From July 31st, 2020 to Feb 28th, 2021, the 10-year U.S. Treasury yield rose from 0.53% to 1.41% and the 30-year U.S. Treasury ascended from 1.20% to 2.16% while the U.S. 2-year Treasury remained around 0.10%. The difference in yield between the 2-year Treasury and 30-year Treasury (steepness) has almost doubled since the end of July.

- Additionally, it is probable that this steepness will persist as the Federal Reserve is committed to keeping short-term interest rates near zero and long-term fixed income buyers adjust their expectations to inflationary pressures.

U.S. Treasury Curves (Green = Feb 28, 21', Yellow = Jul 31, 20')



AHB Fixed Income Portfolios

- This additional steepness offers investors higher returns for deploying funds into longer maturities. However, the longer investments generally have higher volatility/interest rate risk. At AHB, we advise a balanced approach between holding short-term investments for protection and investing longer-term to maximize yield. As an SMA manager, we identify appealing active ladders of staggered maturities that mitigate a portion of interest rate risk while generating relatively higher income.

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- This active-laddered approach benefited current AHB clients. If AHB had "hunted for yield," we may have extended duration, but by maintaining an intermediate ladder, AHB will be able to reinvest in securities at these new higher interest rates as the shorter maturity securities come due.

- Investment Grade Corporate and Municipal bonds are a relatively attractive investment for clients seeking preservation of capital, due to the additional yield pick-up (spread) versus U.S. Treasuries. This spread also serves as a cushion of protection against potential further rising interest rates. Typically, a rising interest rate environment will coincide with a stronger economy, which will cause credit spreads to narrow for some downside protection.

    - **Corporate Bonds** – AHB is selectively finding attractive "BBB" and "A" rated securities. In this dynamic market, proper due diligence is paramount for avoiding weaker "BBB" credits that could be downgraded to junk.

    - **Municipal Bonds** – AHB is cautious of riskier sectors that have been hurt by the pandemic. Higher education, transportation, airports, nursing homes and individual credits like Chicago and MTA bonds may have slightly higher yields at the moment, but AHB feels these investments are risky for their underlying reward. AHB is finding investment opportunities in local municipalities that are benefiting from the migration from cities to suburbs or a migration from higher to lower taxed states.

AHB Equity Portfolios

- From a broader stock market perspective, we view steepness of the yield curve as a positive that reflects positive economic growth forecasts. This should mean a stronger consumer, benefitting the broader market, and more specifically, this could be a boon for financials with exposure to consumer credit. AHB has recognized this change and increased our exposure to the Financial sector. Growth stocks may take a breather in some respects as the market recognizes that companies which are more reliant on economic growth will be able to grow and benefit. The AHB portfolio does not attempt to concentrate in growth or value but pick the best in both areas.