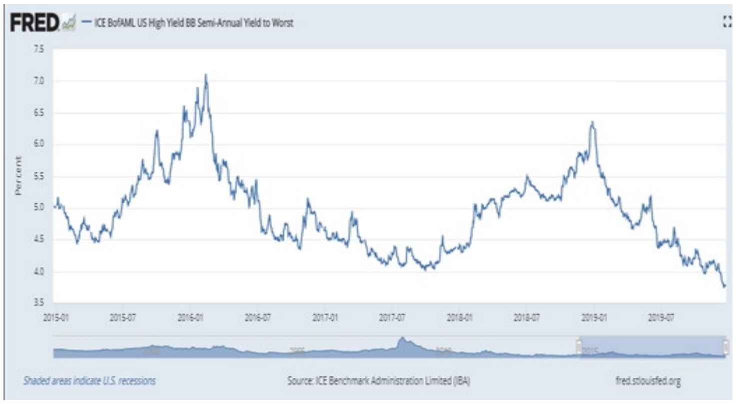
Fixed Income – The Crash that Wasn't

Fixed income analysts sounded warning bells in January 2019 that the high yield bond market was on the verge of collapse. The Fed was hiking rates in the 4th quarter of 2018 while shrinking their balance sheet. Credit conditions were tight and a wave of refinancing was going to crash the market. Most experts believed there was only one direction junk bonds could move — higher yields and lower prices. They were wrong. Spreads on high yield actually contracted in 2019 and currently sit as levels not seen since before the Great Recession. The only segment of the non-Investment Grade bond market that is under pressure today is the highly speculative CCC-rating, where spreads are widening in anticipation of higher default rates. The high yield market remains vulnerable if a loss of confidence in the economy occurs, but until then it is just whistling walking past the graveyard.



Technical – United We Fail?

With so much focus on politics and the 2020 election, it is interesting to see how the market has performed during different political environments. The market has performed slightly better during Democrat administrations compared to Republican, although many would suggest that has more to do with the economy than a particular party's policies. What makes more intuitive sense, however, is the outperformance of the markets when government is divided and neither party controls both chambers of Congress and the White House. Investors are distrusting of either party being in full control of the government regardless of political leaning. Stock market returns may be significantly impacted in 2020 and 2021 depending on what happens this Fall. Polling today suggests the House is likely to remain under Democratic control and the Senate under Republican control with the White House a toss-up, so no worry about control at this point.