

The first quarter of 2021 is not going to be a good one for the overall bond market. As the 10-year benchmark Treasury yield continues to rise from record low levels following the onset of the COVID pandemic, fixed income investments have come under pressure. The Barclay's Aggregate Bond Index, which measures the performance of the domestic investment-grade bond market, is on pace to have one of its worst quarters on record. The chart to the left illustrates the five worst quarters for the iShares Aggregate Bond Index ETF going back to its inception in 2003. (Note that performance for the first quarter of 2021 is through March 29th).

- Much of the losses in bonds have been concentrated in investment-grade credit and U.S. Treasuries. While still lower for the quarter, mortgage-backed bonds have held up relatively well. There are income producing assets, however, that have weathered the rise in rates.
- High-yield bonds, which have higher coupons, have produced modest gains for the year. Dividend-paying equities are also higher for the year, as are REITs. Interestingly, the asset classes that were penalized last year due to the COVID shutdown are in many cases outperforming the broader market in 2021.

