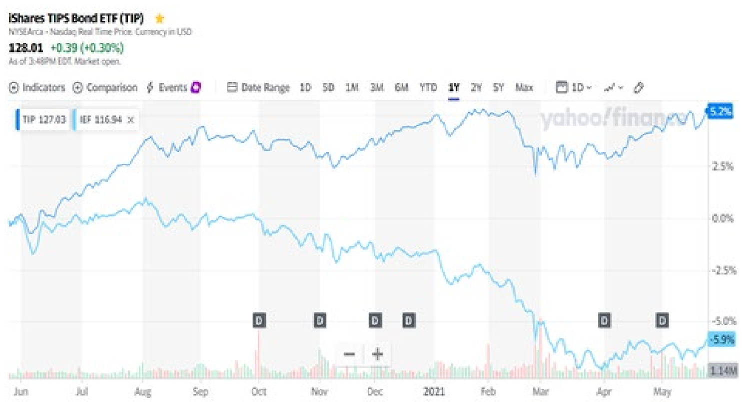
BLOG POST
Analyst Corner
Part 2
06/17/2021

Fixed Income – Keeping the TIPS

Considering rising inflation has been the dominant narrative in the bond market for the better part of a year, it is not surprising to see how much inflation-protected bonds are outperforming their non-hedged counterparts. This chart shows the trailing 12-month performance of the iShares TIP and their 7-10 year Treasury ETF. With the move higher in yields, the Treasury ETF has lost almost 6% over the last year, while the inflation-hedged bonds have added over 5% in positive returns. This is about as stark a contrast as there has been between these two funds. If the latest inflation readings showing almost 6% annualized readings persist, expect TIPS to continue to outperform by a wide margin. Whatever is lost in yield by hedging your fixed income allocation may be more than compensated for in lower draw downs as yields continue to rise.



Technical – Float Much?

Who can forget the insanity of the late 1990's? IPOs were so hot prices would double or triple on the first day of trading, creating a frenzy of demand. The period saw new stock issuance as a percent of GDP double in less than 2 years, one of many signs that what was happening was unsustainable. It is hard to believe this last year has seen something even more remarkable -- a tripling of new issuance as a percentage of GDP while economies have been in lockdown and earnings suppressed. SPACs are a large part of the new issuance, with Goldman Sachs estimating they could reach $200 billion in 2021, staggering when you consider they were under $1 billion just 5 years ago. Those promoting the new issuance are doing so because they know there is demand today, but all that can change quickly when reversion to the mean occurs.