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SHENKMAN

Bond Bears on the Prowl

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In February, bearish bond investors emerged from hibernation and rattled the markets. The sell-off signaled warnings that aggressive fiscal and monetary stimulus, pent-up consumer demand from prolonged lockdowns, and rising commodity prices foreshadow a spike in inflation. With the U.S. economic rebound accelerating, continued firepower of the Federal Reserve supporting the markets, and the possible passage of a $1.9 trillion COVID relief package led to the steepening of the yield curve. Since August 4th, the yield on the 10-year U.S. Treasury has tripled due to fear of a commodity supercycle and a massive surge in public and corporate debt issuance. Despite the recent market adjustment, high yield bond and loan valuations have shown resiliency as a rebounding economy reduces default risk. Bond bears may be roaming the markets, anticipating that inflation will resurface, however many investors may finally be rejoicing over the prospect of higher real yields in the future.

Please Contact Marketing@ShenkmanCapital.com for the full letter.