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SHENKMAN

The Four R's

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Investors digested a mixture of astonishing and perplexing news in the first quarter. Although the S&P 500 index surged above 4,000 for the first time, U.S. Treasuries with maturities greater than ten years plunged, posting the worst return since 1980. Investors seem riveted on the four R's -- rates, recovery, reflation, and risk. Since the beginning of the year, 10-year U.S. Treasury yields have leaped 83bps as the result of a stronger than expected economic recovery and fears of higher inflation. In an era of ultra-low rates, and the U.S. economy expanding at the fastest pace since 1984, the repricing of risk assets continues to dominate the markets. The Biden Administration and the Federal Reserve are promoting changes to monetary and fiscal policies by calling for higher taxes, increased Federal deficits, and inexhaustible leveraging of the Fed's balance sheet. After unexpectedly solid equity performance and a resilient high yield market in the first quarter, it is clear investors may be facing increased market volatility as a result of the four R's.

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