

Q3 - 2020

Market Update

Fixed income markets performed well in the third quarter on continued Federal Reserve support and improving economic conditions. In July, The Fed announced the extension of their lending facilities until December 31st, which gave investors additional confidence to buy fixed income assets. They also committed to keeping short term interest rates at 0% for the foreseeable future. This highly accommodative stance by the Fed continues to be the primary driver of strong fixed income returns.

Taxable and High-Yield Bonds

Investment-grade corporate bonds performed well in the third quarter, returning 1.69%¹ and are now up 6.61%¹ year to date. The Federal Reserve's continued support gave investors comfort to buy bonds despite the COVID-19 overhang on the economy. High-yield corporate bonds outperformed investment-grade corporate bonds during the quarter, returning 4.70%¹. Despite this outperformance in the quarter, the index is still down -0.29%¹ for the year. This year, there have been a record number of bankruptcies due to COVID-19, which has weighed on the high-yield index. None of the companies in AMI's taxable or high-yield portfolio have filed for bankruptcy and we continue to firmly believe that all AMI holdings will make their interest and principal payments even if economic conditions worsen. We stress test all holdings to make sure they have the financial flexibility to weather an economic downturn.

Municipal Bonds

Tax-exempt municipal bonds performed well in the third quarter. 1-3-year municipal bonds returned 0.46%², 3-7-year bonds returned 1.10%², and 7-12-year bonds returned 1.19%² in Q3. This brings year-to-date return to 1.96%², 3.25%², and 3.39%² respectively. Investors shrugged off the lack of federal support for the states and looked to better-than-expected tax receipts on the economic recovery. We are also starting to see new proposed tax legislation in many states as they look to fill budget shortfalls. This is creating additional demand for tax-free municipal bonds.

At AMI, we remain cautious on the outlook for the municipal bond market. We continue to focus on essential service (water, sewer, electric), and redevelopment agencies (backed by property taxes with no pension risk) which should fare much better in the current environment.

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Disclosures

AMI Asset Management (AMI) is an independent investment management firm registered with the Securities and Exchange Commission since 1994. Registration does not imply a certain level of skill or training. AMI provides discretionary asset management services to institutional and individual clients through separately managed accounts using seven equity and fixed income strategies.

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To receive a complete list of composite descriptions, GIPS® Reports, or the latest copy of our ADV Part 2 contact Katharine Kim at (424) 320-4003 or write AMI Asset Management Corporation, 10866 Wilshire Boulevard Suite 770, Los Angeles, California 90024, or Katharine@amiassetmanagement.com.

1. Figures presented on page one are from the below indices as of 9/30/20. ICE BofAML US Corporate Index, ICE BofAML US High Yield Index
2. Figures presented on page one are from the below indices as of 9/30/20. ICE BofML US 3-7 Municipal Bond Index