

Q4 • 2020

Market Update

Fixed income markets performed well in the fourth quarter. After the extreme price volatility in the first quarter of the year, markets have recovered off their low levels and are now approaching all-time highs. The Federal Reserve's unwavering support of fixed income assets helped contribute to the strong returns in 2020. The markets have also responded positively to the successful development of a vaccine for Covid-19. While the economy is still sluggish, the vaccine should eventually help the hardest hit sectors in 2021.

Taxable and High Yield Bonds

Investment grade corporate bonds performed well in the 4th quarter, returning 2.99%¹ and are now up 9.80%¹ for 2020. Investors continue to buy across the risk spectrum as the Federal Reserve remains accommodative. High yield corporate bonds outperformed investment grade corporate bonds during the quarter, returning 6.48%¹ and are up 6.16%¹ for 2020. High yield bonds have benefited from the vaccine development as investors are now more optimistic about 2021. Even with the vaccine rollout, some sectors of the high yield market may experience elevated bankruptcies in 2021. 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 fourth quarter. 1–3-year municipal bonds returned 0.19%², 3–7-year bonds returned 0.87%² and 7–12-year bonds returned 1.84%² in Q4. This brings year-to-date returns to 2.15%², 4.14%², and 5.29%², respectively. Investors continue to buy municipal bonds despite the lack of federal support for state and local governments. The lack of federal support has led to new proposed tax legislation in many states as they look to fill budget shortfalls. The prospect for high tax rates is creating additional demand for tax free income.

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



Q4 ▪ 2020

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.

The information contained herein has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities. Forward-looking statements are necessarily speculative in nature. It can be expected that some or all of the assumptions or beliefs underlying the forward-looking statements will not materialize or will vary significantly from actual results or outcomes.

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 12/31/20 ICE BofAML US Corporate Index, ICE BofAML US High Yield Index
2. Figures presented on page one are from the below indices as of 12/31/20 ICE BofAML 1-3 Year US Municipal Securities Index, ICE BofAML 3-7 Year US Municipal Securities Index, ICE BofAML 7-12 Year US Municipal Securities Index.

