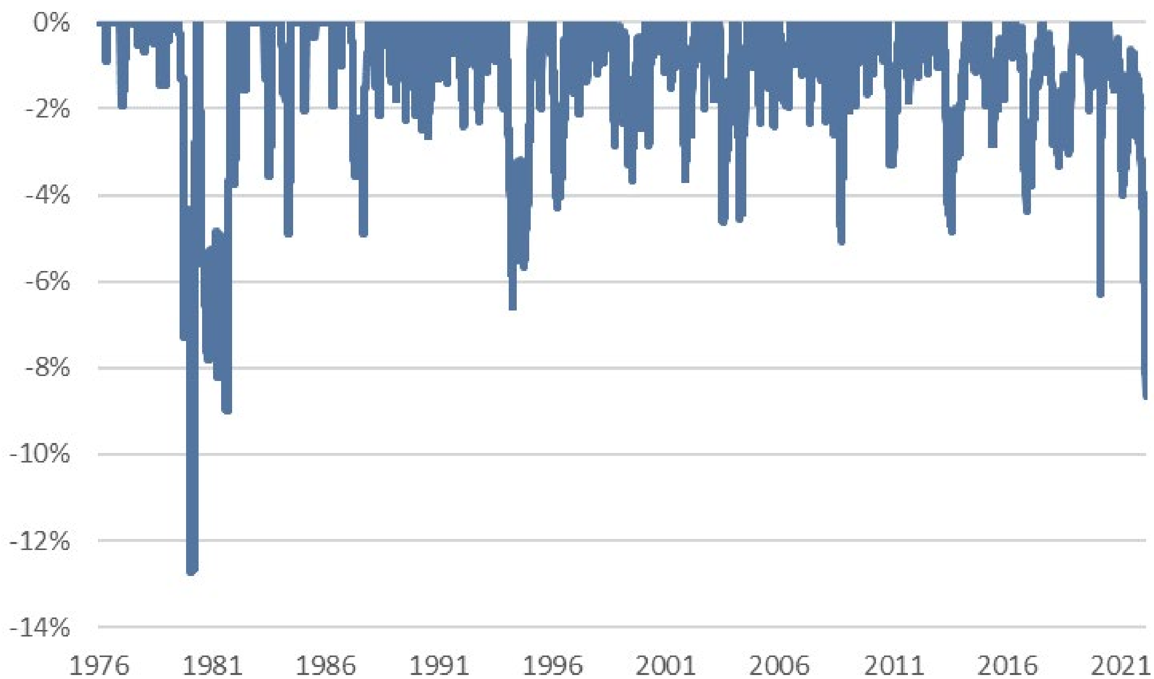
MARKET COMMENTARY

Fig. 1: Drawdowns in the Bloomberg Aggregate Bond Index, 1976-2022



Source: Bloomberg, Mill Creek

Equity markets have garnered the lion's share of attention this year, but there's a bear market occurring in fixed income that no one seems to be talking about. Taxable bonds, as measured by the Bloomberg Aggregate Bond Index, have declined almost 9% on a total return basis from their previous peak near the end of 2020. This is the worst drawdown since the early 1980s.

The municipal bond world has fared slightly better. The broad-based Bloomberg Municipal Bond Index has declined about 6% and the shorter-duration Bloomberg 1-10yr Blend Municipal Bond Index, which better represents our positioning, has declined just over 5%.

Should we run for the exits? No. Most of the Fed's hiking cycle for this year has already been priced in and we'll see strong institutional rebalancing into bonds that should be supportive of the asset class. Yields are up, so investors that have been waiting for an entry point should consider investing. Even so, we're not optimistic about bonds and we continue to believe investors should limit their bond allocation to the amount necessary from a risk tolerance and risk capacity perspective. "Excess" bond assets will be better utilized elsewhere in the portfolio.

QUICK LINKS

- The Fed Hiking Cycle Has Begun
- The Driving Forces of Inflation

- Normalization Ahead for Earnings
- March Market Update
- "If you hear missiles flying..."

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