June 2022

COMMUNITY CAPITAL MANAGEMENT

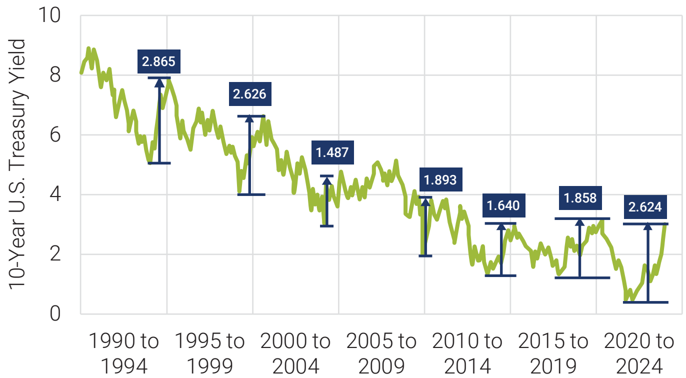
Is There any Good News for Bond Investors?

Since the yield on the 10-year U.S. Treasury hit a record low of 0.52% on August 4, 2020, the bond market decline has been significant. The record-high duration witnessed by the Bloomberg U.S. Aggregate Index had suggested that the decline was *possible*; however, few investors could have possibly imagined drawdowns of recent magnitude. For investors looking ahead and determining whether to stay in bonds (or return to bonds), this perspective looks at interest rates over the last 30 years and the current outlook for bonds.

Interest Rates

Interest rates have generally declined over the last 30 years, as shown in **Figure 1**. Periods of ups and downs have followed alongside changes in the economy, but the overall downward movement in interest rates has benefited bond investors — until recently.

Figure 1 Interest Rates Have Generally Declined Over the Last 30 Years 1/1/1990 to 5/19/2022



Source: Bloomberg. The chart shows the yield on the 10-year U.S. Treasury, highlighting the seven periods where the yield increased by 1.4% or more.

The disruption of COVID-19 caused interest rates to plummet, hitting record lows in August 2020. The recovery that followed saw interest rates rising as the economy recovered, getting back to levels that were previously considered "normal" prior to the pandemic. Inflationary effects of supply chain disruptions and rebounding demand outpacing supply caused interest rates to accelerate even higher, and the subsequent decline in bond returns was the worst it has been since the Bloomberg U.S. Aggregate Index was created in 1976.

Figure 2 Historical Bond Market Declines

Periods	10-Year U.S. Treasury Yield Increase	Days	Bloomberg U.S. Aggregate Index
10/15/1993 to 11/07/1994	2.865	388	-5.30%
10/05/1998 to 01/20/2000	**2.626**	**472**	**-2.35%**
06/13/2003 to 09/02/2003	1.487	81	-4.51%
12/31/2008 to 06/10/2009	1.893	161	-0.20%
07/24/2012 to 12/31/2013	1.640	525	-1.71%
07/05/2016 to 10/05/2018	1.858	822	-2.31%
08/04/2020 to 05/06/2022	**2.624**	**640**	**-12.19%**

Source: Bloomberg. The table shows the performance of the Bloomberg U.S. Aggregate Index during the seven periods of rising rates as shown in Figure 1.

Looking Ahead

- **Yields:** Interest rates along the yield curve are higher now from where they were at the start of the drawdown period (August 2020), thus lowering the potential negative effects to bond prices if rates go higher. For example, **Figure 2** shows the 10-year U.S. Treasury yield rose slightly more in the 10/5/1998 to 1/20/2000 period (472 days) than it did in the 8/4/2020 to 5/6/2022 period (640 days); however, the negative impact to bond market returns (as measured by the Bloomberg U.S. Aggregate Index) was much lower, declining by a mere 2.35% compared to a decline of 12.19%.
  - Higher yields can mean higher income, a potentially important contributor to a bond's total return and likely meaningful income supplement to investors who are retired and/or on a fixed income.
  - Higher yields can signal a quicker recovery from price declines since the income is higher.
- **The Federal Reserve (Fed):** Some may argue the Fed was late to act in rising rates, but it has recently been aggressive in its efforts to combat inflation, helping to curb earlier inflation fears that drove bond market prices lower.
- **Technology:** Technology has been one of the largest drivers of lower inflation and lower interest rates over the last 30 years. Innovation does not seem to be slowing, which could signal interest rates remaining structurally lower than their historical averages.
- **Low Growth or Recession:** Lower growth cycles and/or recessions typically are not welcome news for an economy or the equity markets; however, for fixed income investors, bonds generally fare well in these environments (see **Figure 3**).

Figure 3 Bond and Stock Returns during U.S. Recessions

U.S. Recession Periods	Days	Bloomberg U.S. Aggregate Index	S&P 500
06/30/1990 to 06/28/1991	363	10.70%	7.34%
12/31/2000 to 12/31/2001	365	8.44%	-11.89%
09/30/2007 to 06/30/2009	639	10.46%	-37.13%
12/31/2019 to 06/30/2020	182	6.14%	-3.09%

Source: Bloomberg

Conclusion

Predicting with certainty where interest rates will go from here is difficult, but today's higher yields should provide a better support for positive returns if rates keep rising. With inflationary pressures slowly stabilizing, and the outlook for the economy uncertain, the road ahead for bonds looks a bit less bumpy than the road just travelled.

About CCM: Community Capital Management, LLC (CCM) is an investment adviser registered with the Securities and Exchange Commission. CCM was founded in 1998 and manages over $4 billion in assets. The firm believes a fully integrated portfolio — one that includes environmental, social, and governance (ESG) factors — seeks to deliver strong financial performance while simultaneously having positive long-term economic and sustainable outcomes. CCM's strategies utilize an innovative approach to fixed income and equity investing by combining the positive outcomes of impact and ESG investing with rigorous financial analysis, an inherent focus on risk management, and transparent research. For more information, please visit: www.ccminvests.com.