Rates Stabilize Due To Stimulus - Fixed Income Update

The Fed pledged its continued support for the economy in the form of fixed income purchases including government bonds, mortgages, and various ETFs. The Fed also resorted to buying junk bonds in the open market, as well as continuing to buy unlimited amounts of U.S. government bonds and mortgage backed securities. Lending facilities were also extended to corporations and municipalities helping to support the corporate and municipal bond markets.

The U.S. Treasury is expected to issue over $2 trillion in short-term Treasury bills this year, with the intention of selling additional billions of dollars of longer term notes and bonds to subsidize the massive stimulus efforts underway.

An increase in the money supply, as measured by M2, rose to over $17.2 trillion as of April 20th, up from $15.5 trillion on February 24, 2020. The rapid increase is a result of the massive fiscal and monetary stimulus infused in order to stem the effects of the pandemic.

Both short-term and long-term yields have fallen as massive stimulus efforts have buoyed the bond markets. The yield on the 10-year Treasury bond ended April at 0.64%, with the yield on the 2-year Treasury ending the month at 0.20%. All bond sectors are positive for the year, outperforming all equites indices since the beginning of the year.

Sources: Federal Reserve, U.S. Treasury