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2021 Fixed-Income Manager Survey

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Snapshot

- We polled the managers within our investment-grade fixed-income strategies about their outlooks for interest rates, monetary policy and bond-market conditions in 2021.
- They predicted a steeper U.S. Treasury yield curve in 2021 due to higher long-term yields, driven by government stimulus, vaccine distribution and the reopening of the U.S. economy.
- We believe these managers are positioning themselves for inflation pressures in the U.S. to accelerate during the year; however, the inflationary landscape appears more stable abroad.

Let's begin with our standard caveat: no one has a crystal ball to predict the future with perfect precision. And, the investment management firms with whom we work are staffed by mere mortals. That noted, we believe our managers represent an eminently capable group of market observers and economic prognosticators.

In keeping with our annual tradition, we've polled 15 managers within our investment-grade fixed-income strategies about their outlooks for interest rates, monetary policy and bond-market conditions in 2021. Their assets under management range from approximately $80 billion into the trillions, all managing strategies driven by global analytical coverage.

We think their aggregated forecasts may help form a consensus outlook. Note that we began collecting manager surveys at the end of the fourth quarter of 2020 and received final responses in January 2021, so it's important to consider our findings in the appropriate context.

Where will interest rates go in 2021?

A majority of the managers polled expect interest rates to move higher in the U.S. and to remain range-bound across major developed economies this year. Projections for lower rates were negligible, and only present for the U.K. We polled managers prior to the start of 2021. Therefore, managers have incorporated current data into their outlook due to recent developments impacting fixed-income markets.

Overall, managers anticipate modestly higher long-term yields and a steeper curve over the course of 2021. The short-term segment of the yield curve is expected to be insulated from outsized moves given major central banks' ongoing commitment to boosting growth and stoking inflation by keeping policy rates near historic lows. The long-term segment of the curve may potentially be more susceptible to upward pressure, particularly if the market believes that monetary and fiscal policy will collaborate to usher in an era of economic reflation.

Exhibit 1: Managers Foresee a Higher Rate Environment in 2021

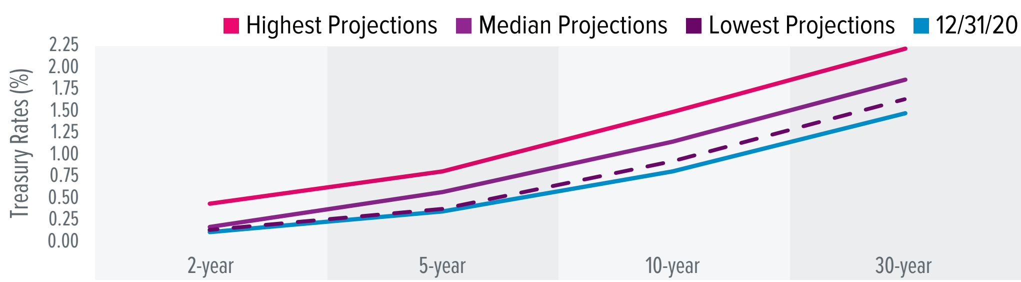
Source: SEI's 2021 Survey of Fixed-Income Managers. Numerical values represent the number of managers that selected the designated response. Exhibit values may not add up to the total polled 15 managers due to managers not responding to all questions.

How will U.S. Treasurys finish 2021?

Volatility returned to the U.S. Treasury market during the final months of 2020. The short-term segment of the yield curve was subdued as the Federal Reserve (Fed) kept rates on hold. Further out on the curve, yields climbed as positive vaccine developments improved the medium-term outlook. What do managers believe will happen next?

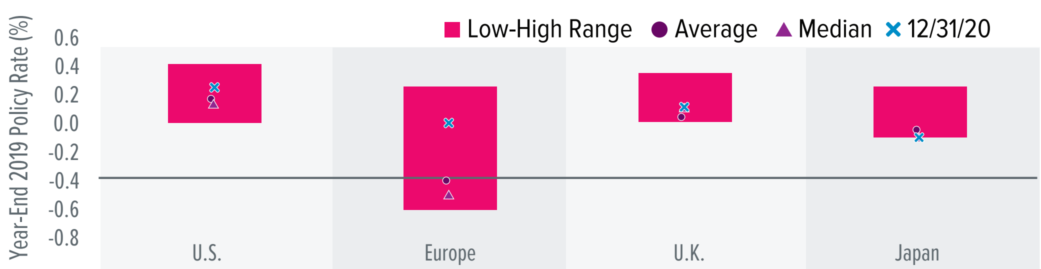
The majority of managers predict a significantly steeper U.S. Treasury yield curve for 2021, which may be viewed as a sign that investors expect stronger U.S. growth and inflation in coming decades. Therefore, managers anticipate that future government stimulus, vaccine distribution and the reopening of the U.S. economy will spur growth and inflation prospects. Treasury yields are expected to stage a recovery from the lows registered in 2020.

Exhibit 2: U.S. Treasurys Expected to Climb by Year End



Sources: SEI's 2021 Survey of Fixed-Income Managers, U.S. Department of the Treasury. High, median and low projections represent managers' forecasted values.

Exhibit 3: Managers Expect Lower U.S. Policy Rates by Year-End



Sources: SEI's 2021 Survey of Fixed-Income Managers, Board of Governors of the Federal Reserve System, European Central Bank, Bank of England, Bank of Japan. High, median and low projections represent managers' forecasted values.

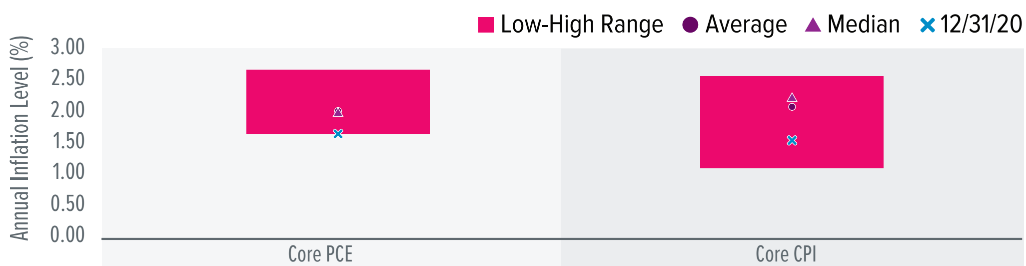
Where will inflationary pressures go in 2021?

The outlook for inflation varies across regions. Most managers believe that inflation will rise in the U.S. However, with easy money policy comes the growing concern that a spike in inflation (and—eventually—interest rates) may follow. Managers believe the likelihood that inflation will move significantly higher in 2021 is remote, but pressures may unfold in the second half of the year if the economic recovery takes hold. Lastly, the consensus among managers is that cyclical, or base case factors, should drive inflation higher during the short-term. The jury is still out for secular trends on inflation, which may face the same challenges prior to pandemic.

Exhibit 4: Price Pressures Show Signs of Mounting

Source: SEI's 2021 Survey of Fixed-Income Managers. Numerical values represent the number of managers that selected the designated response. Exhibit values may not add up to the total polled 13 managers due to managers not responding to all questions.

Exhibit 5: Expectations Fairly Consistent Across Traditional and Market-Based Inflation Measures



Sources: SEI's 2021 Survey of Fixed-Income Managers, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

What is the outlook for global economic growth?

A large majority of managers expect signs of an economic recovery to emerge as COVID-19 abates and activity normalizes. Fiscal spending and accommodative central-bank policy should sustain gross domestic product growth and eventually cause inflation to rise. Additionally, the Fed's latest summary of economic projections contained improved forecasts, with expectations for higher economic growth and lower U.S. unemployment in 2021 and thereafter.

The consensus among managers is that central banks will remain accommodative in 2021. Additionally, managers do not believe that U.S. policy rates will turn negative. Accommodative central-bank policy, which is meant to stimulate the economy, is expected to persist as the U.S. continues to battle against the pandemic. Such policy encourages higher consumer and business spending by making money cheaper to borrow through lower short-term interest rates.

Glossary of Financial Terms:

Easy Money Policy: Easy money policy refers to a monetary policy that increases the money supply by lowering interest rates. It occurs when a country's central bank decides to allow new cash flows into the banking system.

Fiscal Policy: Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, especially macroeconomic conditions.

Monetary Policy: Monetary policy, the demand side of economic policy, refers to the actions undertaken by a nation's central bank to control money supply and achieve macroeconomic goals that promote sustainable economic growth.

Yield: Yield refers to the earnings generated and realized on an investment over a particular period of time. It's expressed as a percentage based on the invested amount, current market value, or face value of the security.

Yield Curve: The yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (likelihood of default). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates the yields are closer together.

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