

# **Monthly ETF Overview**



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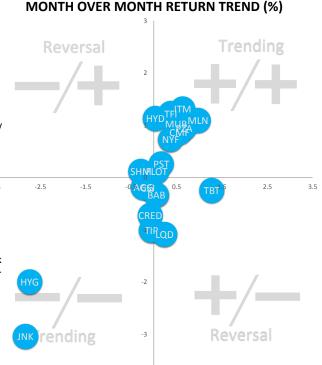
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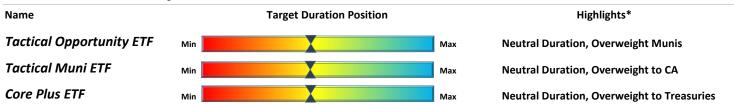
## **Market Commentary**

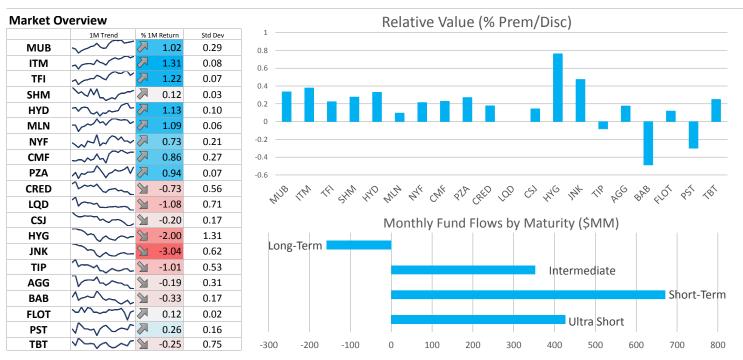
- Despite the FOMC increasing its short-term interest rate for the first time in nearly a
  decade, bond markets remained steady to close out 2015. This reaction largely followed
  dovish statements that re-emphasized "gradual adjustments" based on progress towards
  the committee's 2% inflation target. Looking into '16, we are unconvinced that significant
  headway can be made on this front as persistently deflated energy prices become less and
  less "transitory" (Crude has now traded below \$65 a barrel for more than a year).
- As mentioned in our November ETF Overview, we remain cautious of the high yield bond
  market, particularly corporates, as depressed energy prices could lead to meaningful
  increases in negative credit headlines for the sector in '16. ETFs in the space were certainly
  not immune to the market weakness, with funds such as JNK (high yield corporate) posting
  a negative return in excess of 3% for the month.
- The common themes of tax-sensitive investor demand, limited new issue supply and generally sound credit fundamentals once again proved supportive for the Muni market in December. MUB, an often used barometer for broad market Munis, outpaced its taxable counterpart AGG (aggregate bond) for the 7th consecutive month, posting a return of +1.02% versus AGG's -0.19%.

## **Strategy Commentary**

- Yield curve positioning within the strategies remained neutral to slightly long of benchmark
  during the month despite the official "lift-off" from the FOMC. Heading into the December
  meeting our thesis was and remains that the likely market reaction produces a general
  flattening of the yield curve led by higher front-end rates, and stable (if not lower)
  intermediate to longer term yields.
- We see a continuation of this trend as we look into '16 as mediocre growth, low inflation, and global market volatility should ultimately help keep longer term yields in check while the FOMC continues down a slow path of normalization.
- From a sector and credit standpoint the strategies continue to display a more defensive tilt, particularly in Core Plus, where we have avoided the high yield corporate space. In Tactical Opportunity, we continue to overweight Munis to Taxables for the reasons mentioned above and see this theme continuing into '16.







Please refer to the second page for sources, definitions, and disclosure information.

\* Strategy positioning highlights are current as of date shown and subject to change without prior notice.

**Sources:** ETF return, standard deviation, premium and discount, and fund flow data are obtained through Bloomberg Professional Service. Information obtained from these sources is believed to be reliable but is not guaranteed and is subject to change without notice.

#### **Definitions:**

Standard Deviation: A measure of the dispersion of a set of data from its mean. Standard deviation is calculated as the square root of variance.

**Duration:** A measure of the timing of cash flows (i.e., the interest payments and the principal repayment) to be received from a given fixed income security. Duration is used to assess price volatility for given changes in interest rates, the reinvestment risk associated with a given portfolio or the interest rate risk associated with matching particular interest-rate-sensitive assets and liabilities.

Fund Premium and Discount: A pricing situation that occurs when the share value of a exchange traded fund is trading above or below the net asset value (NAV) of its components.

**Net Asset Value (NAV):** The value of each share of a fund as determined by the value of its underlying holdings, including any cash in the portfolio. NAV is calculated by dividing a fund's total net assets by its number of shares outstanding.

Month Over Month Return Trend: Fund plots represent returns for a two month period, with the X-axis value being prior month's total return and the y-axis value being the current month total return as of publication.

#### **ETF Information:**

iShares Bond ETF Information (MUB, NYF, CMF, CRED, LQD, CSJ, HYG, TIP, AGG, BAB, IGOV, FLOT): iShares Bond ETF Overview Page

Van Eck Market Vectors Municipal Bond ETF Information (ITM, HYD, MLN): Market Vectors Municipal Income ETF Overview Page

SPDR Fixed Income ETF Information (TFI, JNK): SPDR ETF Product Information Page

Powershares ETF Information (PZA): PZA Product Information Page

ProShares ETF Information (PST, TBT): ProShares Leveraged Inverse Treasury Information Page

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