Intermediate Taxable Quarterly Commentary

FIRST QUARTER 2017

Macro Overview

The optimism emanating from President Trump's November election spilled into the first quarter, although momentum eventually stalled as Republicans were unable to pass a replacement of the Affordable Care Act. This inability to push through his first major piece of legislation cast doubt on the President's chances to deliver on other campaign promises and served as a stern reminder that D.C. political gridlock is alive and well. Still, the S&P and Dow did reach record highs during the quarter before retreating late in the period, while bond yields followed a similar trend. To begin the quarter, markets were comfortably anticipating multiple Fed rate increases in 2017, but they were priced later in the year. On January 1, Fed Funds Futures assigned only a 31% probability for a hike at the Committee's March meeting. However, as positive economic data filtered out in February, the probability of a move in March began to increase. Then, after testimony from Fed Chair Yellen to the Senate Banking Committee was perceived hawkish, markets quickly adjusted even further to a near certain 25bps increase. The subsequent hike at the Committee's meeting a few days later sent front-end Treasury yields higher but saw intermediate and longer dated yields remain anchored, signifying near-term inflation concerns were softening. As equities cooled, bonds rallied to close out the quarter: the 10-yr ended at 2.38% after hitting a high of 2.62% (March 13th). The focus now turns to tax reform. The Trump administration has promised major change to both individual and corporate taxes but has provided little in the way of details. Should reform not live up to market expectations or delays push meaningful legislation well into 2018, the Trump reflation trade could be sidelined for the time being.

Composite Characteristics

INTERMEDIATE TAXABLE

AS OF: 3/31/2017

Duration: 3.67 yrs

Yield-to-Worst: 2.18%

Yield-to-Maturity: 2.18%

Maturity: 4.38 yrs

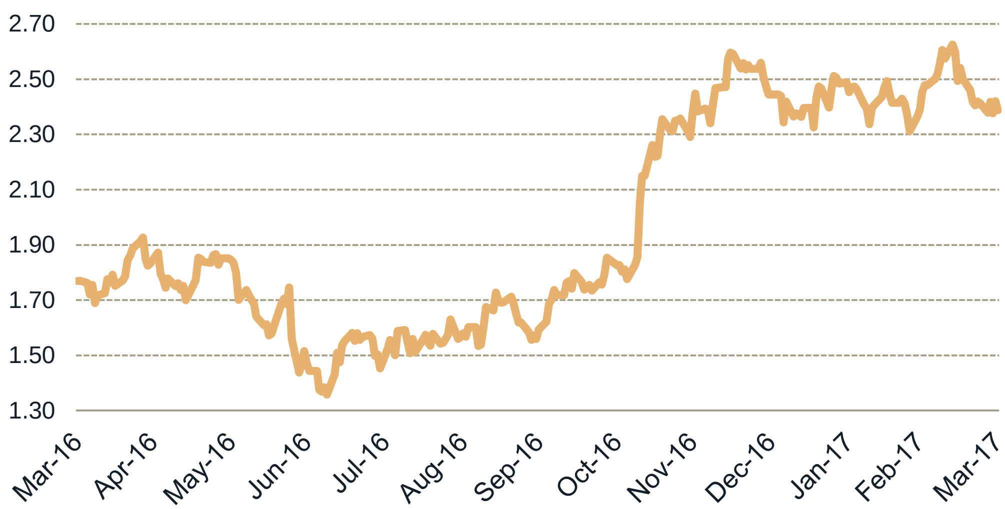
Market Dynamics

More than half a trillion dollars of investment grade corporate issuance came to market in the first quarter, breaking records going back to at least 2014. Issuers looked to capitalize on still historically attractive borrowing levels while, following December's Fed meeting, concerns rose over a quicker pace of accommodation removal. Also, greater uncertainty surrounding the timing and scope of pro-growth initiatives from the new administration persuaded issuers to act before potential disruptions to the very strong demand dynamics currently in the market. That demand from both domestic and foreign investors has been a consistent theme for some time now, as yield starved buyers continue to push credit spreads lower. The first quarter of 2017 was no different, even in the face of the near record breaking issuance, as the Barclays US Credit OAS Index declined by another 6 basis points to end the period at levels not seen since October 2014. The strategy's emphasis on higher quality corporate credits remained a contributor to performance over the quarter, but we continue to proceed cautiously as the rally in risk and spread based assets appears to be a bit long in the tooth. Certainly, a significant restructuring of corporate taxes and increased federal infrastructure spending could help jumpstart muted domestic growth, but there are still many obstacles that the Trump administration must overcome. As always, Caprin's disciplined and conservative approach to credit selection and maturity positioning aims to reduce the potential volatility as these factors evolve.

Performance Notes

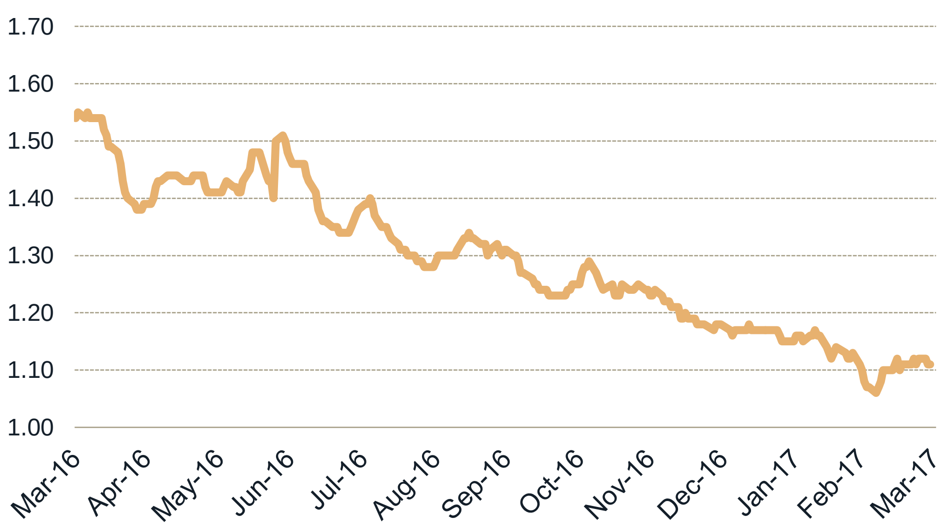
The intermediate portion of the Treasury curve posted over one percent gains through the end of March, and spread based products followed suit. Strategy duration positioning remains slightly short, but the overweight to the corporate credit sector continues to add yield over and above the benchmark, helping compensate for the slightly defensive position. We continue to generally see rate risk to the upside in the near to medium term as significant uncertainty surrounding both monetary and fiscal policy remains. While we do not see a meaningful move tighter in US investment grade credit spreads as a likely scenario, their relative value attractiveness throughout the global investment landscape will likely dampen any unexpected widening, and leave us with a generally stable corporate credit environment for the time being.

FIGURE 1: 10-YR US TREASURY YIELD
Source: Bloomberg



"…their **relative value attractiveness** throughout the global investment landscape will likely dampen any unexpected widening, and leave us with a generally stable corporate credit environment for the time being."

FIGURE 2: BARCLAYS US CREDIT INDEX OAS
Source: Bloomberg



Contact Information

1802 Bayberry Court, Suite 202
Richmond, Virginia 23226
804] 648-3333
CAPRINBONDS.COM
Media Contact:
aplotkin@caprinbonds.com

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.