Intermediate Taxable Quarterly Commentary

Third quarter 2017

CAPRIN

Macro Overview

U.S Treasury rates were on the rise to begin the 3rd quarter but quickly reverted on weaker than expected data. By August, elevated geopolitical tensions, lower inflation, and a more dovish tilt from the Federal Reserve sent yields across much of the curve to YTD lows. Hurricane Harvey, the first of three major hurricanes to hit the US mainland and its territories this season, wreaked havoc on Houston and surrounding areas, and will play a significant factor in upcoming economic readings. Treasury yields began to recover in September on the heels of rising Chinese inflation, stronger commodity prices, and the Fed's apparent desire to raise rates once more in '17. In a long anticipated move, the central bank also announced its plan to reduce balance sheet assets beginning in October.

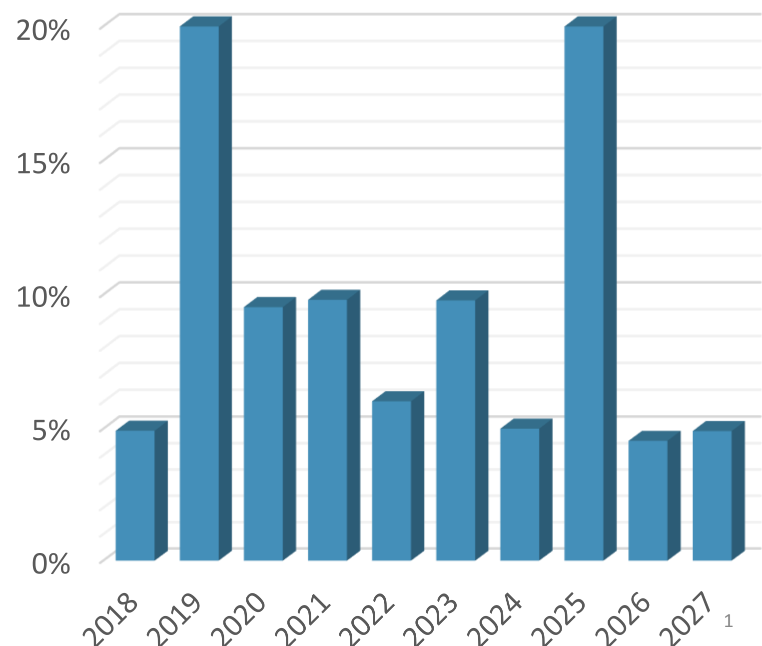
- The Fed wants balance sheet reduction to run quietly in the background, which we believe will be the case near-term.
- News headlines come and go, but the underlying issues do not. Geopolitical tensions surrounding North Korea (among others) will not simply vanish; they remain market moving events.
- Initial excitement surrounding tax reform appears to be fading, and markets will take notice of another policy setback for the Trump administration.

Composite Characteristics

AS OF: 9.30.17
Duration: 3.77
Yield-to-Worst: 2.15%
Yield-to-Maturity: 2.16%
Maturity: 4.47 yrs

Market Dynamics

Despite heightened geopolitical risk and record YTD issuance, corporate credit spreads continued their descent lower as healthy earnings, improving global growth, and accommodative central bank policies kept investors comfortable with the fundamental backdrop. Looking ahead, 3Q earnings will be of particular interest as robust double digit growth in the first two quarters of the year will be challenged by tougher comps and weather related expenses. While the current estimate of approximately 5% y/y growth is certainly weaker, we would not expect a major market reaction unless earnings come in noticeably below forecasts. Beyond this, the Federal Reserve will begin its balance sheet reduction in October. The program should have little impact to investors this year, but will certainly be a focal point as we move through 2018 and more assets are allowed to run off.

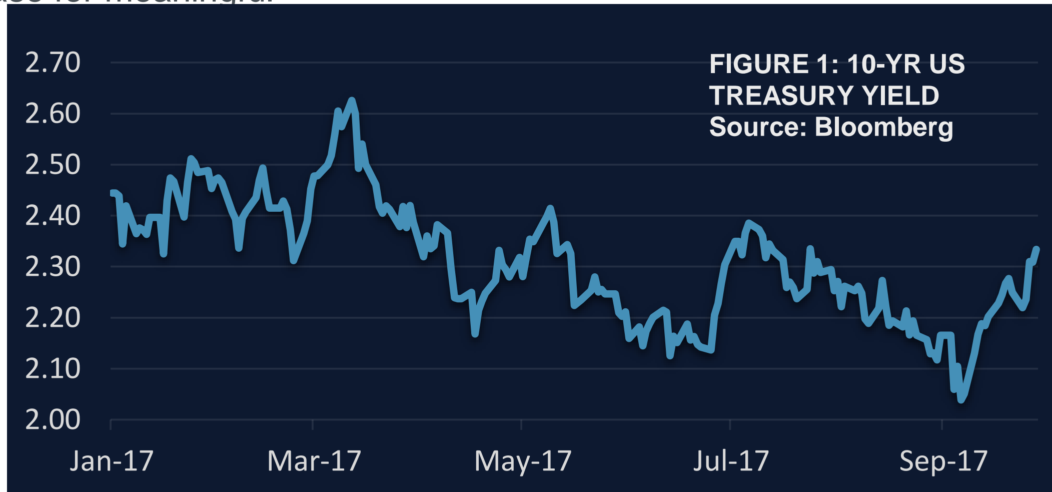


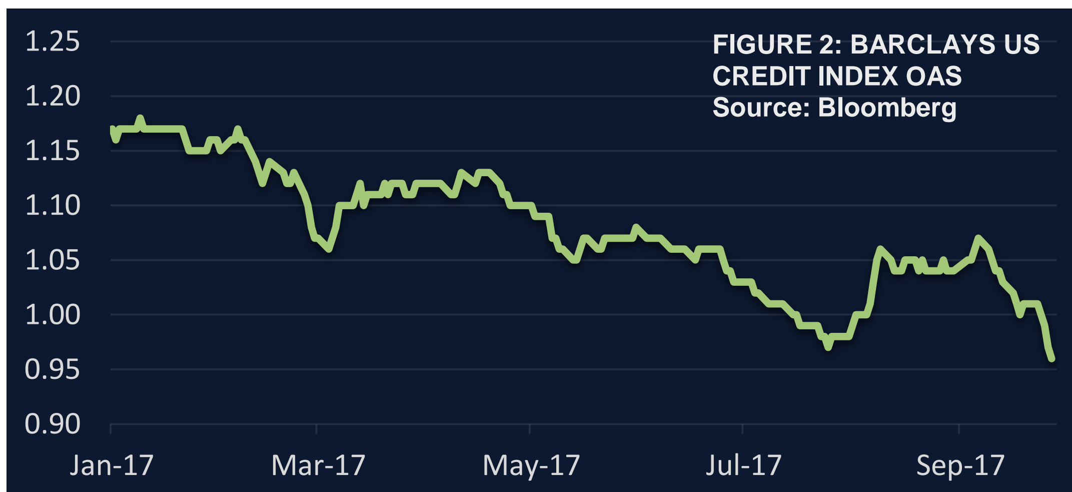
Intermediate Taxable Quarterly Commentary

Third quarter 2017

Performance Notes

Strategy duration positioning remained near neutral over the quarter, but the emphasis on corporate credit continued to benefit from the aforementioned spread tightening and incremental yield over and above the benchmark. Given the uncertainty surrounding fiscal and monetary policy in the US and Europe, and the modest inflation prospects, our outlook does not call for significantly higher interest rates in the near to medium term. It remains difficult to make a case for meaningful spread contraction from here, short of unforeseen and markedly improved domestic growth, but heading through year-end and into 2018 we see an environment where investment-grade credit should remain relatively stable. As such, we continue to judiciously select higher quality credits from larger, well capitalized corporations that offer incremental income versus U.S. Government securities, but historically less volatility than other lower quality strategies.





"Over the quarter the strategy's emphasis on corporate credit continued to benefit from further spread tightening and incremental yield over and above the benchmark."

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.