



SHORT MATURITY MUNI AND LOW DURATION TAXABLE

COMMENTARY – FIRST QUARTER 2018



MACRO OVERVIEW

The first quarter of 2018 began with a bond selloff finding yields on benchmark 2YR, 10YR and 30YR US Treasuries up 38, 33, and 23 basis points, respectively. The front-end move was fueled by the FOMC rate hike in March and by more interest rate increases forecast for 2019 and 2020 (up to three and two hikes, respectively). This was the first meeting with Jerome Powell as Chairman and financial markets generally believe his policy guidance will remain in-line with his predecessor. Equity volatility also roared back during Q1 after what can be described as a complacent 2017. The VIX index reached a high in February last seen during the summer 2015 flash crash fueled by Chinese growth and credit concerns. Both the DJIA and SPX finished the quarter off approximately 1–2%.

- The Fed will likely pursue two (possibly three) more interest rate increases this year. This will continue to pressure the front-end of the yield curve but a lack of inflation should help contain intermediate and longer-term interest rates.
- Increased US Treasury issuance to accommodate the Fed balance sheet unwind and address the growing deficit may pressure intermediate and longer maturities.
- Bouts of equity volatility are likely to persist as the market dodges global trade tensions and a disruptive DC landscape. Sustained volatility could trigger a broader risk-off trade and support re-allocations to fixed income.

MARKET DYNAMICS

Chairman Powell delivered the FOMC’s first interest rate hike of 2018 in line with expectations, and reminded investors a “gradual” reduction in accommodation could mean two more 25 basis point rate increases this year, three increases in ’19, and two in ’20. The Committee communicated its view of an improving outlook along with confidence that inflation could move toward its 2% target. Powell though tempered the hawkish bias with comments suggesting current data does not indicate an inflation surge. We continue to respect the central bank’s forecasted path to higher rates within strategy positioning and support the Chairman’s assessment that price pressures have failed to sustain any real momentum. While there have been glimpses of better wage growth, progress will need to be more consistent for the Federal Reserve to maintain the market’s confidence.

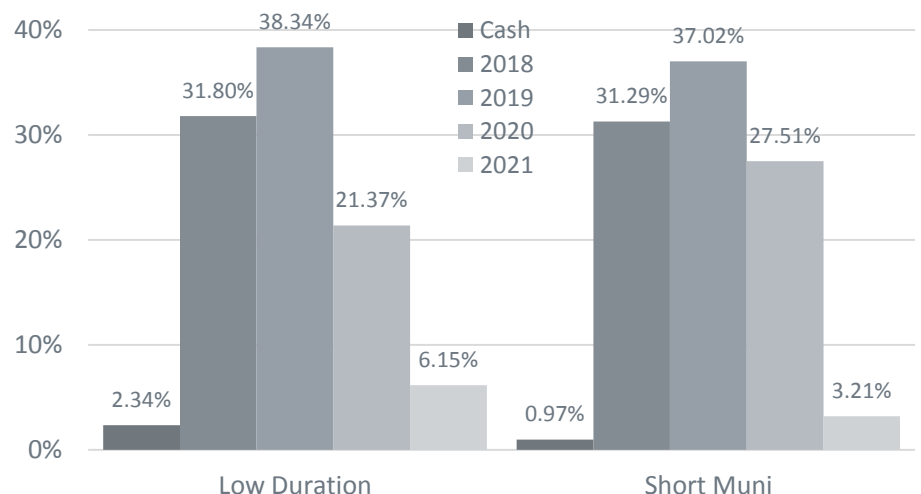
LOW DURATION

Duration: 1.43 yrs
Yield-to-Worst: 2.52 %
Yield-to-Maturity: 2.52 %
Maturity: 1.49 yrs

SHORT MUNI

Duration: 1.39 yrs
Yield-to-Worst: 1.75 %
Yield-to-Maturity: 1.77 %
Maturity: 1.46 yrs

MATURITY PROFILE





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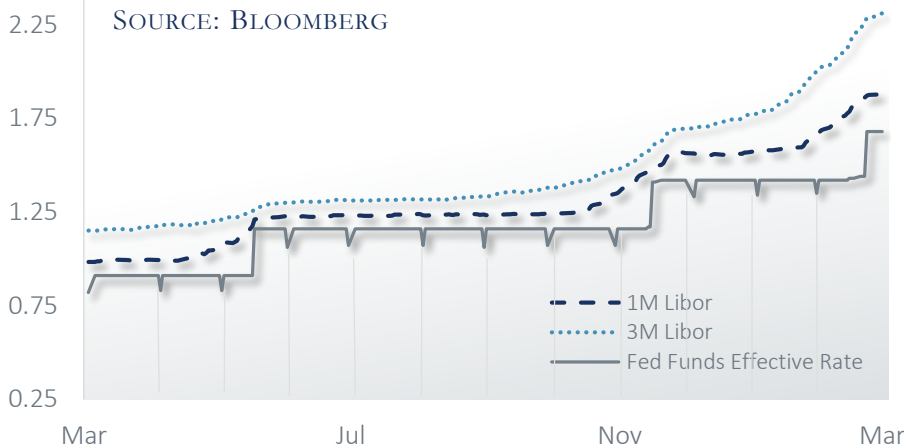
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PERFORMANCE NOTES

Short-term rates rose as the FOMC continued down its deliberate path. The 2YR US Treasury ended 2017 at approximately 1.90% and then closed Q1 2018 approaching 2.30%. Improving portfolio income levels within the low duration taxable and short maturity municipal strategies helped buffer that move higher in rates. Corporate credits continued to provide incremental income though spreads widened as equity volatility increased. Our near-to-medium term view still sees corporates supported by economic growth, healthy earnings, and a more favorable tax code. We continue to favor a shorter position on the yield curve within low duration taxable portfolios and see the more laddered structure of the short maturity municipal strategy continuing to benefit from a consistent stream of reinvestable cash flow.

1M, 3M LIBOR RATES

SOURCE: BLOOMBERG



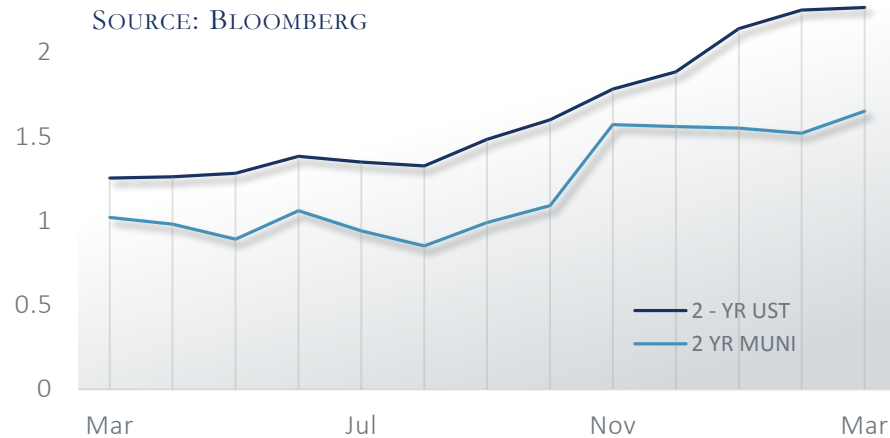
“While we respect the central bank’s ...

forecasted path to higher short-term rates

... within strategy positioning, we agree with the Chairman Powell’s current assessment that data does not necessarily suggest we are on the cusp of an acceleration in inflation.”

2 YR UST vs 2 YR MUNI

SOURCE: BLOOMBERG



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