



# ETF STRATEGIES

## COMMENTARY - SECOND QUARTER 2018



### STRATEGY COMMENTARY

- Despite the upward momentum of interest rates carrying well into the quarter, culminating with a 3.12% on the 10YR UST, trade disputes and equity market uncertainty quickly returned intermediate and longer-term yields to recent ranges. Closing the quarter at 2.86% the 10YR UST was still higher by 13 basis points, but absorbed less than half of the Fed driven movement that carried front-end yields up by more than 25 basis points.
- For the second half of 2018 we continue to see shorter maturity yields rising in concert with a Fed path that now calls for four 25 basis point rate increases in '18 and at least three in '19. Intermediate and longer maturities are unlikely to move higher in lockstep as global trade tensions and still low inflation help buffer elevated supply from U.S. Treasury issuance and a shrinking Fed balance sheet. This could result in an even flatter curve, but at moderately higher yields over the next 12-24 months. As such the strategies remain at slightly more defensive duration positions to help buffer against those risks.
- A general lack of supply during Q2 continued to be the primary driver in the municipal market with issuance down ~20% quarter-over-quarter. Bank selling began to subside during the quarter while inflows, especially from the retail space, remained steady leading to another period of outperformance versus taxable alternatives. A comparison of broad market ETFs shows AGG (iShares US Aggregate) returning -0.18% versus VTEB (Vanguard Tax-Exempt) at +0.87% for the quarter. We remain constructive on the municipal sector through the rest of 2018, and continue to overweight tax-exempts in our Opportunity Plus strategy. High Yield Munis again outperformed over the quarter, and we remain constructive on this sector via allocations to HYD (VanEck High Yield Muni) and SHYD (VanEck Short High Yield Muni) in the Muni Plus and Opportunity Plus strategies.
- Choppy equity markets and robust supply led to further widening of IG corporate spreads over the quarter, but still within 2017 ranges. Corporate credit health though remains sound and has actually strengthened of late, with revenue, earnings, and gross leverage metrics all improving in 2018 (JP Morgan). We continue to view this modest spread widening as healthy for the taxable markets, and one that in the near-to-medium term can offer some incremental yield and renewed value in corporate debt. Offsetting some of the drag in high-grade corporates was a more stable period for high yield corporate prices, allowing ETFs like SJNK (Core Plus strategy allocation) to return much of its yield to investors and produce a total return of approximately 1.00% for the quarter.

### CAPRIN ETF STRATEGIES

#### OPPORTUNITY PLUS ETF

AS OF: 6/30/2018

Duration: 4.69 yrs

Highlights: Shorter Duration Positioning, Muni 60%/Taxable 40%, Maintain Allocation to High-Yield Muni

#### MUNI PLUS ETF

AS OF: 6/30/2018

Duration: 4.50 yrs

Highlights: Shorter Duration Positioning, Maintain Allocation to High-Yield Muni

#### CORE PLUS ETF

AS OF: 6/30/2018

Duration: 5.17 yrs

Highlights: Shorter Duration Positioning, Maintain Credit Allocation

FIGURE 1: RELATIVE VALUE (% PREM/DISC AS OF 6/29/18)

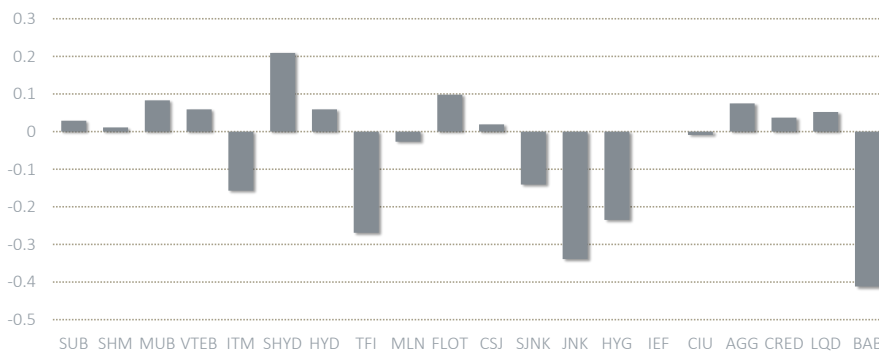
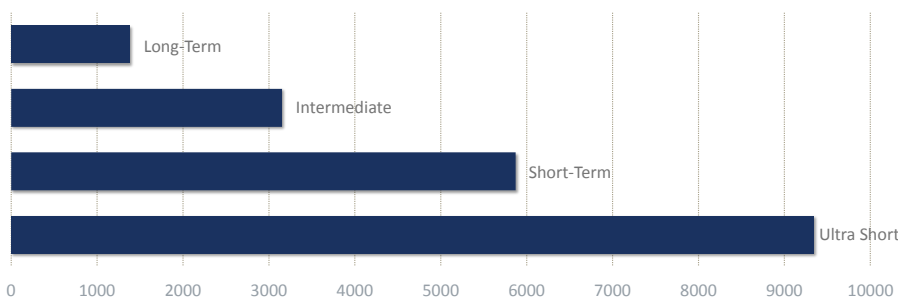


FIGURE 2: QUARTERLY FUND FLOWS BY MATURITY (\$MM)



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

FIGURE 3:

ETF TICKER	QRTLY TREND	% Q RETURN	STD DEV
SUB		0.40	0.22
SHM		0.64	0.14
MUB		0.69	0.37
VTEB		0.87	0.16
ITM		0.75	0.09
SHYD		2.05	0.11
HYD		2.67	0.16
TFI		0.45	0.14
MLN		0.62	0.09
FLOT		0.67	0.04
CSJ		0.40	0.12
SJNK		0.98	0.08
JNK		0.31	0.17
HYG		0.63	0.33
IEF		-0.10	0.67
CIU		-0.24	0.36
AGG		-0.18	0.50
CRED		-0.89	0.72
LQD		-1.53	1.01
BAB		-0.70	0.22

\* 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 an 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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