



INTERMEDIATE MATURITY TAXABLE



COMMENTARY – FIRST QUARTER 2019

MACRO OVERVIEW

Following a tumultuous end to 2018, U.S. equities rebounded in Q1 2019 on more resilient domestic economic activity. Globally however, growth slowed more meaningfully, especially in China and the Eurozone where lingering trade disputes and political uncertainty (Brexit) have exacerbated already weaker economic environments. Bond market performance was strong during the quarter as rates rallied across the curve. Yields on benchmark USTs were down 22bps, 28bps and 20bps in the 2yr, 10yr, and 30yr portions of the curve, respectively. The primary driver of lower yields was a stark reversal of policy expectations from the Federal Reserve. Entering the year the Fed was still signaling two interest rate hikes in 2019, however, following its March meeting, expectations were revised substantially lower, and language within the FOMC minutes now depicts a more dovish outlook for the U.S. economy.

- Our current economic outlook for the U.S. supports moderating performance for 2019. GDP estimates hover right above 2.0%, lower than 2018’s 2.9% but certainly not recessionary.
- The bond market, as evidenced by the UST Forwards Curve, has also dovishly tilted its outlook. Forwards are now pricing an interest rate cut in late 2019.
- The spread between the 3 month T-Bill and 10yr Treasury turned slightly negative in late March and was arguably the most significant inversion so far in this cycle. This was short-lived and we believe calls for a recession based on this relationship have been pre-mature.
- Little tangible evidence of a genuine trade deal with China has emerged. However, should a deal be struck, it would likely help alleviate some near-term concerns regarding the health of the global economy.

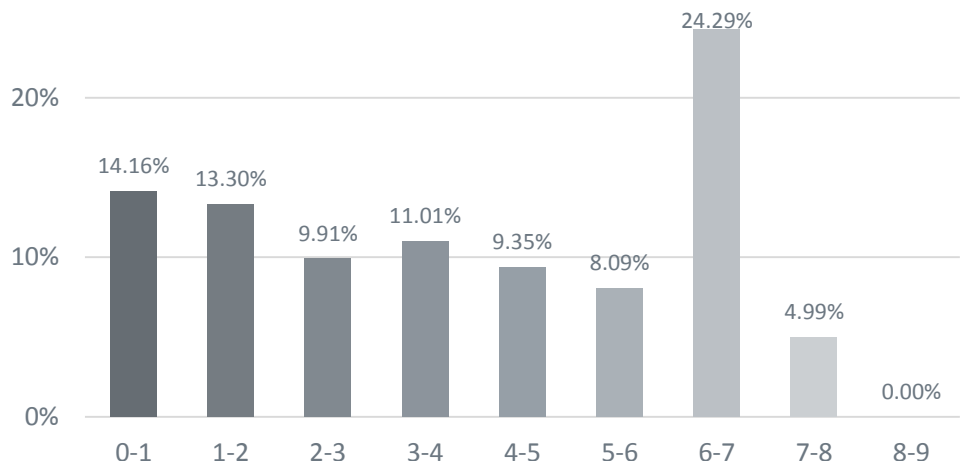
MARKET DYNAMICS

In early 2016 investment grade corporate spreads widened by nearly +60bps in a little over a month, only to completely retrace that move in another 30 days or so. The end of 2018 saw a similar although less severe whipsaw. The Bloomberg Barclays US Aggregate Credit Index widened by +43bps in Q4 2018 to close at +143bps. However, as was the case in 2016, calmer heads quickly prevailed, and spreads marched back to more normalized levels closing out Q1 2019 at +113bps. The softening forward guidance from the Federal Reserve eased market tensions and was coupled with the realization that the US was and is unlikely to be on a rapid trajectory to recession. While we remain cautious of more bouts of volatility, we still see a generally healthy investment grade corporate landscape.

COMPOSITE CHARACTERISTICS

Duration: 3.71 yrs
 Yield-to-Worst: 2.69 %
 Yield-to-Maturity: 2.70 %
 Maturity: 5.07 yrs

DURATION PROFILE





INTERMEDIATE MATURITY TAXABLE



COMMENTARY – THIRD QUARTER 2018

PERFORMANCE NOTES

Our consistent approach to selecting higher quality corporate issuers with sound balance sheets helped buffer volatility versus weaker credits in late 2018, but the overweight to credit was a detractor to returns for the full year. As risk markets swiftly improved and credit spreads retraced during the first quarter of 2019, the strategy’s corporate overweight was once again additive and produced outperformance versus the benchmark. The recent move in spreads does remind us that we are likely in the latter stages of an economic growth cycle, but our outlook does not call for a significant deterioration in high grade corporate credit health in the near-to-medium term. Our issuer selection disciplines should continue to contribute incremental yield to the strategy.

10-YR US TREASURY YIELD (%)

SOURCE: BLOOMBERG



“The recent move in spreads does remind us that we are likely in the latter stages of an economic growth cycle but...

our outlook does not call for a significant deterioration

... in high grade corporate credit health in the near-to-medium term.”

US CREDIT INDEX – SPREAD (%)

SOURCE: BLOOMBERG



CONTACT US

804.648.3333

WWW.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.