

# ETF Strategies Overview

SECOND QUARTER 2019

## Strategy Commentary

- Geopolitical tensions, declining inflation expectations, and a dovish FOMC all combined to send rates meaningfully lower in Q2. Yields on the front-end dropped as much as 50bps, while the intermediate and longer portions of the curve were lower by 40bps and 30bps, respectively. Our ETF strategies in both the taxable and tax-exempt spaces posted strong positive returns and continued to benefit from the longer positioning trades placed earlier in the year.
- Despite rising tensions on the trade front and in the Middle East, credit spreads here at home were reasonably stable over the quarter. The Bloomberg Barclays US Aggregate Credit Index managed to close out the period a few basis points tighter compared to Q1 (+107bps on 6/30 vs. +113bps on 3/29). In Core Plus, investment grade corporate ETFs like USIG (iShares Investment Grade Corp) were up more than 4% for the quarter, now up more than 9% YTD. With a more dovish tone from the FOMC, we believe that while bouts of volatility will likely remain, investment grade credit will benefit in the near- to medium-term from lower rates and yield seeking investor behavior.
- Supply and demand technicals remain supportive within the tax-exempt space as YTD fund inflows are now over \$43bn, a record start to any year since data collections began in the early 1990s. We also continue to see a generally stable credit backdrop for municipal issuers that helps us stay constructive on the municipal high yield sector. In Muni Plus and Opportunity Plus, HYD (VanEck High Yield Muni) posted another impressive quarterly return of 2.69%, now up over 6% for the year.

## Caprin ETF Strategies

### OPPORTUNITY PLUS ETF

AS OF: 6/30/19

Duration: 4.98 yrs

Highlights: Neutral Duration,  
Muni 50%/Taxable 50%,  
Maintain Position to  
High-Yield Muni

### MUNI PLUS ETF

AS OF: 6/30/19

Duration: 4.51 yrs

Highlights: Neutral Duration,  
Maintain Position to  
High-Yield Muni

### CORE PLUS ETF

AS OF: 6/30/19

Duration: 5.64 yrs

Highlights: Neutral Duration,  
Overweight Credit

FIGURE 1: RELATIVE VALUE (% PREM/DISC AS OF 6/30/19)

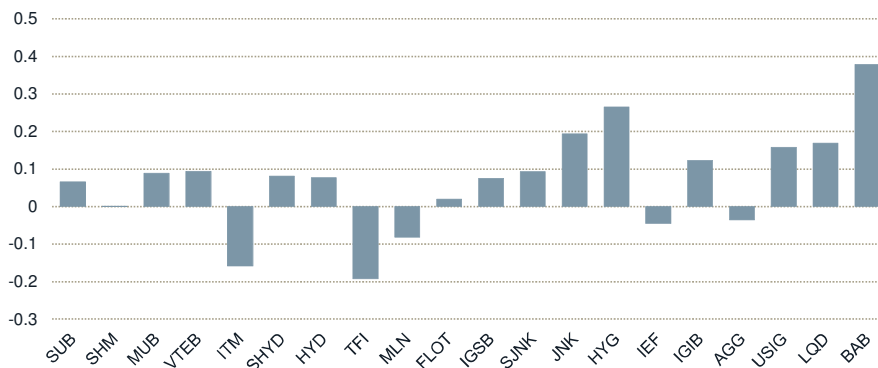
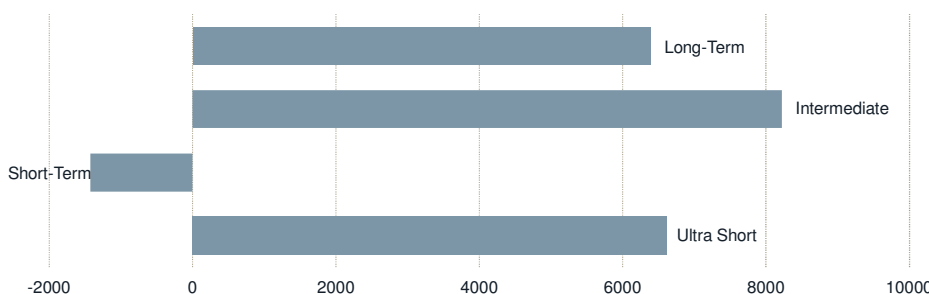


FIGURE 2: QUARTERLY FUND FLOWS BY MATURITY (\$MM)



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

FIGURE 3: FIXED INCOME ETF

| ETF TICKER | QRTLY TREND | % Q RETURN | STD DEV |
|------------|-------------|------------|---------|
| SUB        |             | 0.93       | 0.27    |
| SHM        |             | 1.28       | 0.19    |
| MUB        |             | 2.36       | 0.84    |
| VTEB       |             | 2.38       | 0.40    |
| ITM        |             | 2.53       | 0.44    |
| SHYD       |             | 2.19       | 0.14    |
| HYD        |             | 2.69       | 0.43    |
| TFI        |             | 2.29       | 0.42    |
| MLN        |             | 2.96       | 0.20    |
| FLOT       |             | 0.80       | 0.04    |
| IGSB       |             | 1.98       | 0.26    |
| SJNK       |             | 1.36       | 0.14    |
| JNK        |             | 2.40       | 0.75    |
| HYG        |             | 2.16       | 0.60    |
| IEF        |             | 3.76       | 1.70    |
| IGIB       |             | 4.26       | 0.65    |
| AGG        |             | 2.82       | 1.10    |
| USIG       |             | 4.18       | 0.63    |
| LQD        |             | 5.41       | 1.78    |
| BAB        |             | 4.33       | 0.49    |

\* 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 \(MUB, NYF, CMF, USIG, LQD, IGSB, HYG, TIP, AGG, BAB, IGOV, FLOT\): 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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