Short Maturity Muni and Low Duration Taxable

Commentary – Second Quarter 2019

Macro Overview

The U.S. economy proved resilient in the face of slowing global growth during Q1, however, Q2 was a different story as more mixed economic data began to emerge. Employment remained respectable during the quarter, but leading indicators like ISM slowed on trade war uncertainty. Inflation continued its descent as Core PCE (the Fed's preferred inflation indicator) dropped to 1.6% after beginning the year at 1.95%. The drop in inflation expectations and a dovish FOMC were the primary catalysts for lower rates during the period. 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. The rapid decline in rates over the quarter signaled market expectations for future rate cuts. It now appears that the Fed may succumb to the pressure, though perhaps not to the degree the market would prefer.

- The Fed removed "Patient" from its most recent statement, and the FOMC now seems primed to cut rates at an upcoming meeting. Current market probabilities for a cut in July '19 are at nearly 100%.
- FOMC remains constructive on the US job market and overall growth but acknowledged that business fixed investment has moderated. Still sees GDP growth in '19 at approximately 2.0%.
- Trade and geopolitical tensions will likely drive intermediate and longer-dated bond yields heading into Q3. Fed uncertainty seems to be less of a factor for the time being.

Market Dynamics

Interest rates for shorter maturity bonds, particularly between 2 and 5 years, rallied to levels not seen since late '17 as the market quickly began to price in cuts by the FOMC later this year. At the end of the second quarter, the 2YR UST yield stood at 1.75%, a full 50bps lower over the period. Market expectations show the highest probability outcome as a 25bp cut at both the July and September meetings. While we respect the change in tone from the FOMC and view an "insurance" cut as a distinct possibility, at this point multiple rate cuts seem unwarranted given our current assessment of the domestic economy. Nevertheless, a more cautious Fed from here will keep short maturity yields from rising in the near to medium-term and continues to support the ongoing extension of strategy portfolios.

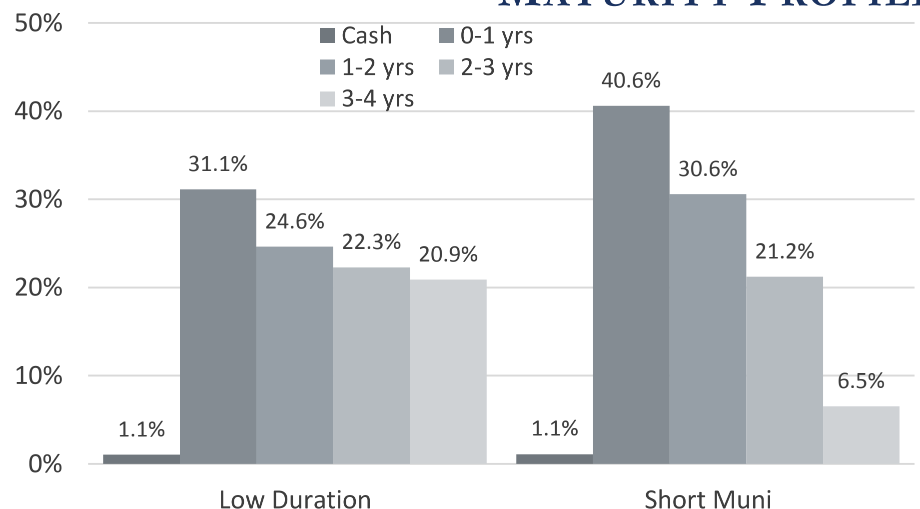
Low Duration

Duration: 1.76 yrs
Yield-to-Worst: 2.10 %
Yield-to-Maturity: 2.11 %
Maturity: 1.87 yrs

Short Muni

Duration: 1.35 yrs
Yield-to-Worst: 1.48 %
Yield-to-Maturity: 1.51 %
Maturity: 1.45 yrs

Maturity Profile

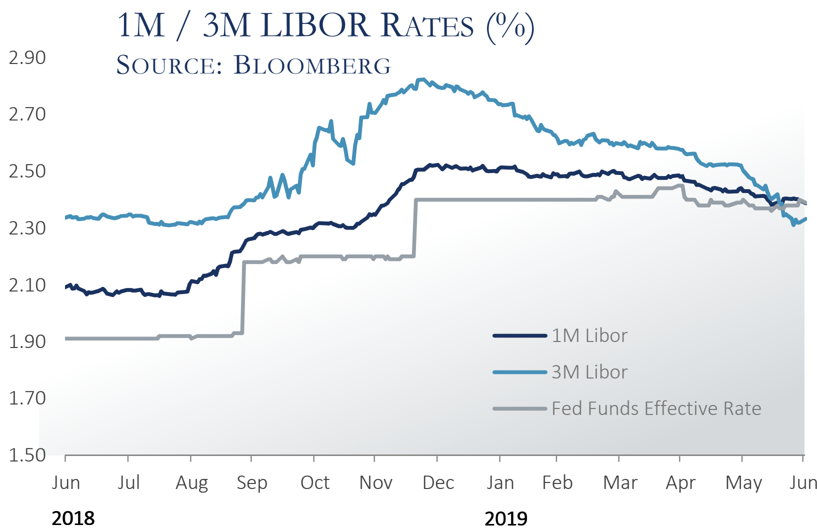


Short Maturity Muni and Low Duration Taxable

Commentary – Second Quarter 2019

Performance Notes

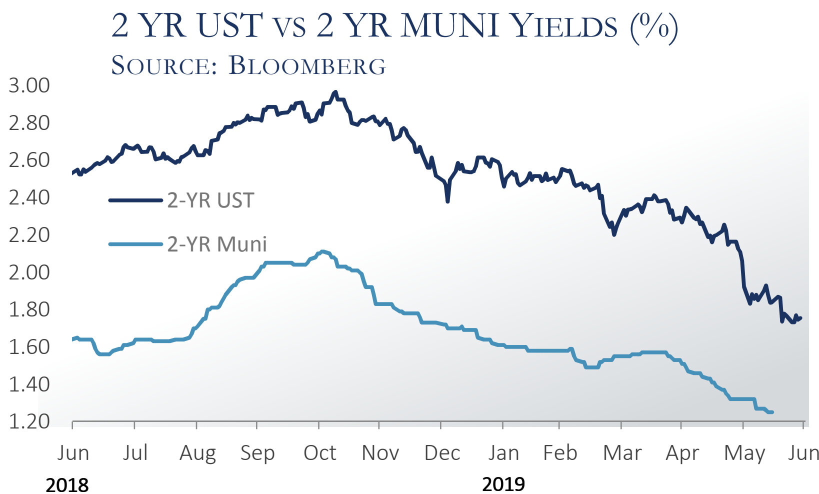
Performance in both the short maturity municipal and low duration taxable strategies was in-line with benchmarks for the quarter, producing year-to-date total returns over 1.5% and 2.5% respectively. With a target reinvestment between 3-4 years, short maturity municipal has been able to take advantage of a still positively sloped tax-exempt yield curve and incremental spread found within our preferred revenue sectors. Late period outperformance within low duration taxable was attributable to the overweight to corporate credit that helped offset a slight drag in May when tariff and Fed fears were at their peak. The strategy's consistent selection of well-capitalized issuers has provided incremental yield and return versus the benchmark and continues to position portfolios for the more volatile late cycle market we seem to be in.



"A more cautious Fed from here will

keep short maturity yields from rising in the near to medium-term

and continues to support the ongoing extension of strategy portfolios."



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.