Intermediate Maturity Taxable

Commentary – Third Quarter 2019

Macro Overview

The notable decline in interest rates during the second quarter, driven primarily by market anticipation of Federal Reserve rate cuts, extended into Q3. The FOMC followed through over the period (July & September) with two 25bps cuts primarily implemented to offset downside risks from ongoing trade disputes, with weaker global growth and stubbornly low inflation already weighing on their minds. Treasury yields plunged in August with the 10-yr yield touching 1.47% while the 30-yr hit an all-time low of 1.95%; trading below 2% for the first time ever. Interest rates did push higher in the first part of September amid rumors that positive developments were being made ahead of October U.S.-China trade talks. However, the longer-term trend of lower yields quickly reemerged with heightened political discord surrounding the current impeachment inquiry.

- FOMC statement continued to show optimism around the job market and overall growth, however the decision to cut rates was based on "implications of global developments for the economic outlook as well as muted inflation pressure."
- Median Fed Dot forecasts suggest no further action by the Fed, however the dispersion of dots indicates there could be more cuts coming in Q4. Fed Fund futures call for two additional cuts (October & December).
- Significant uncertainty surrounds the rare impeachment inquiry as it is likely to impact everything from trade talks to global financial markets to polling for the 2020 elections.

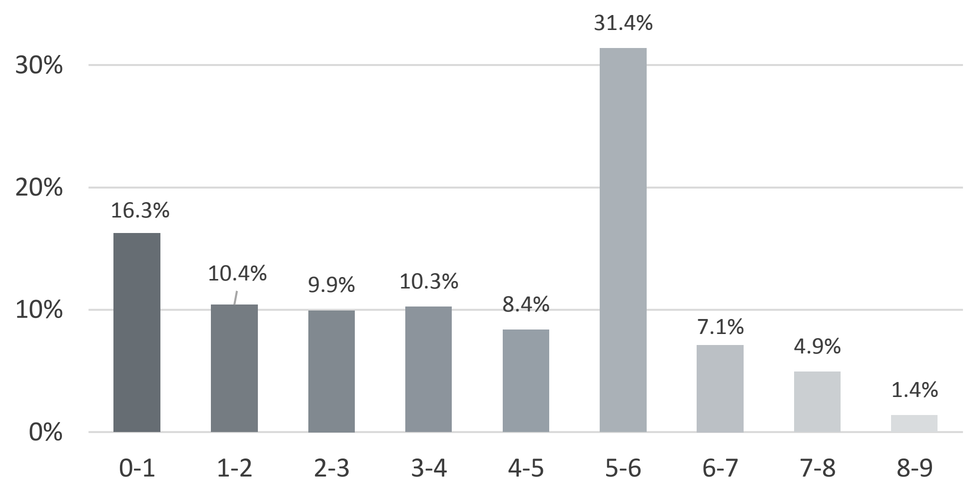
Market Dynamics

Investment-grade corporates experienced a similar trading environment over the quarter like we have seen through much of the year, with modest volatility mostly surrounding the ongoing trade disputes. In fact, when looking at the range of spreads over the past 18 months or so we see the Bloomberg Barclays US Aggregate Credit Index has consistently traded between +105bps and +125bps except for the fairly brief breakout at the end of '18. We continue to expect shorter bouts of volatility to persist as the market navigates a number of cross-currents heading into year-end. However, a more accommodative Federal Reserve, exceptionally low sovereign yields, and still reasonable domestic fundamentals should keep high-grade U.S. corporate debt well bid in the near- to medium-term as global yield seekers remain on the hunt.

Composite Characteristics

Duration: 3.88 yrs
Yield-to-Worst: 2.21 %
Yield-to-Maturity: 2.23 %
Maturity: 5.62 yrs

Duration Profile



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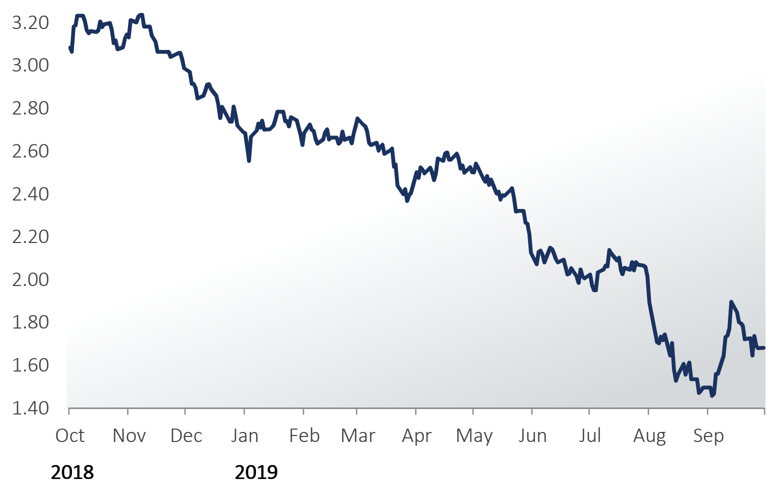
Performance Notes

Despite the relentless back and forth on U.S. and China trade negotiations, Federal Reserve uncertainty, and the third-busiest month (September) on record for investment-grade corporate issuance, the strategy posted solid positive returns for the quarter. Outperformance continued to be driven by the consistent selection of larger, liquid, and well-capitalized issuers that have provided incremental yield and total return versus the benchmark, and aided in dampening late cycle volatility when compared to higher risk/lower rated securities. Looking forward, we will be paying close attention to the planned trade talks in October and incoming economic releases to help shape our view on growth prospects for the rest of the year and into 2020. At this point we continue to see a case for moderating US output, but not near-term recession.

10-YR US Treasury Yield (%)

Source: Bloomberg



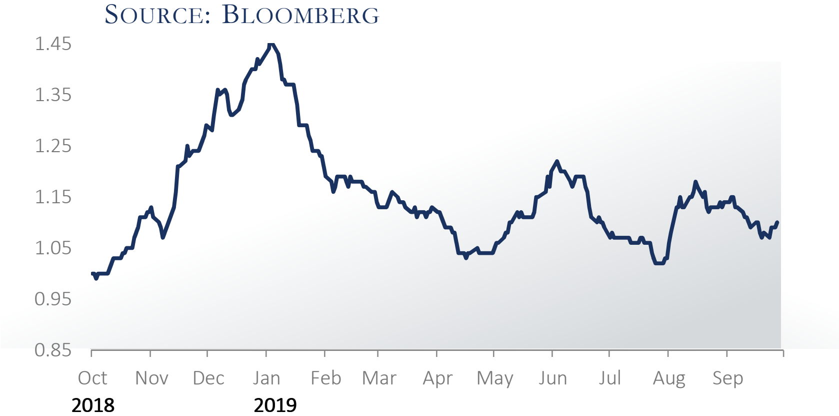
"A more accommodative Federal Reserve, low sovereign yields, and still reasonable domestic

fundamentals should favor high-grade U.S. corporate debt

as global yield seekers remain on the hunt."

US Credit Index – Spread (%)

Source: Bloomberg



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