



# 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.

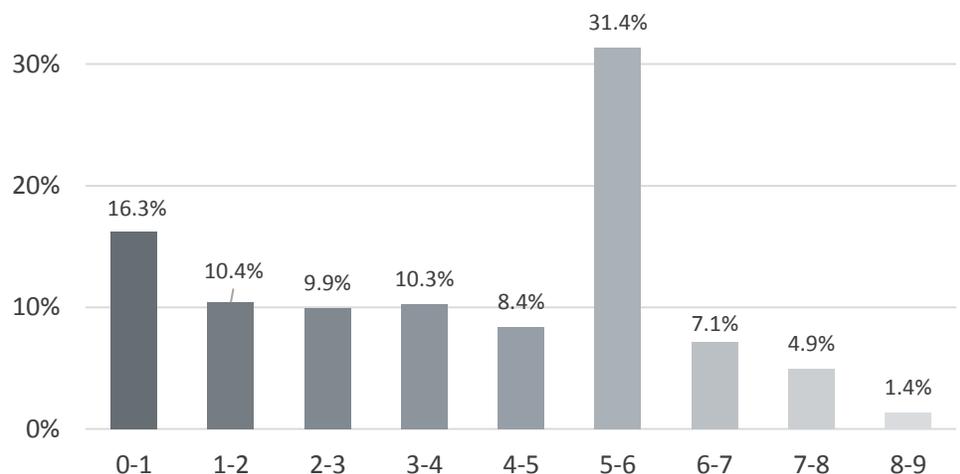
### MARKET DYNAMICS

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.

### DURATION PROFILE

#### COMPOSITE CHARACTERISTICS

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





# INTERMEDIATE MATURITY TAXABLE



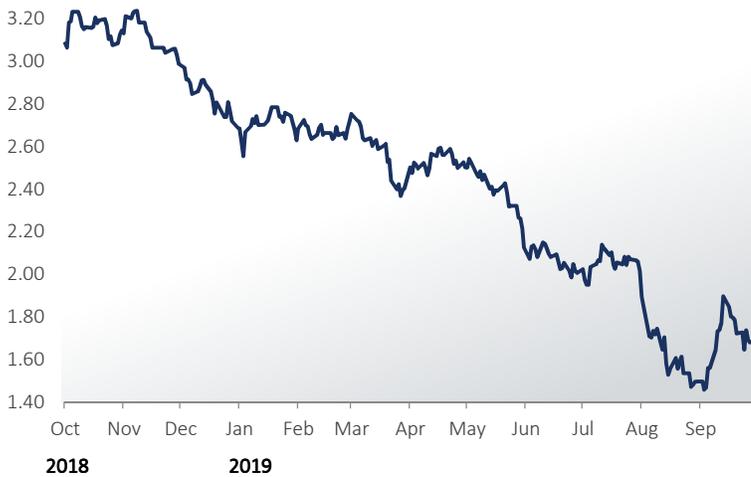
## COMMENTARY – THIRD QUARTER 2019

### 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



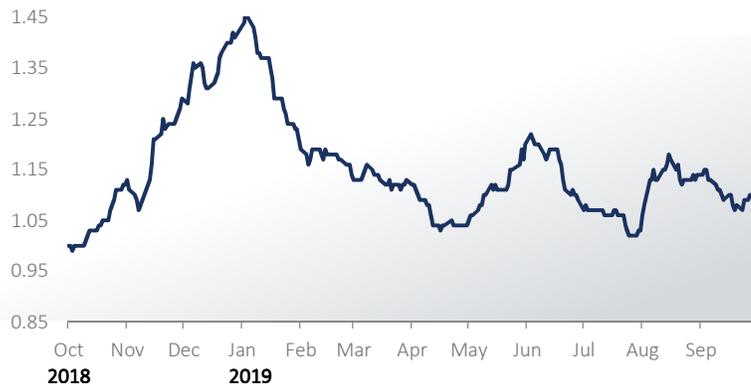
“A more accommodative Federal Reserve, low sovereign yields, and still reasonable domestic

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

as global yield seekers remain on the hunt.”

#### US CREDIT INDEX – SPREAD (%)

SOURCE: BLOOMBERG



### 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.