



INTERMEDIATE MATURITY TAXABLE



COMMENTARY – FOURTH QUARTER 2019

MACRO OVERVIEW

2019 wrapped up with renewed optimism for a possible phase one trade deal between China and the United States. This, in part, helped U.S. equities stage an impressive Q4 rally, bringing returns for the full year above 30% (S&P 500). The Federal Reserve continued easing during the quarter, cutting overnight interest rates an additional 25bps at their October meeting. In total, the Fed cut rates 3 times (75bps cumulative) during the year, a stark reversal from their policy stance heading into 2019. Bond yields ended Q4 marginally higher; however, for the calendar year rates were lower by approximately 90bps on the front-end of the curve and nearly 80bps out 10 years. Looking ahead, the Fed appears to be on hold while the U.S. economy remains on stable footing, but global economic weakness persists.

- Recent geopolitical risks in the Middle East and any renewed political posturing ahead of signing a trade deal are the most likely catalysts for market volatility heading into Q1 '20.
- Markets have largely dismissed the House's decision to impeach the President, labeling it political gamesmanship. Popular narrative suggests there are not enough votes in the Senate to convict President Trump.
- The Fed remains constructive on U.S. job market and overall growth; their most recent forecast sees GDP up 2% in '20. Fed Funds forecasts suggest the Fed will be on hold in '20 with a single hike taking place in '21.

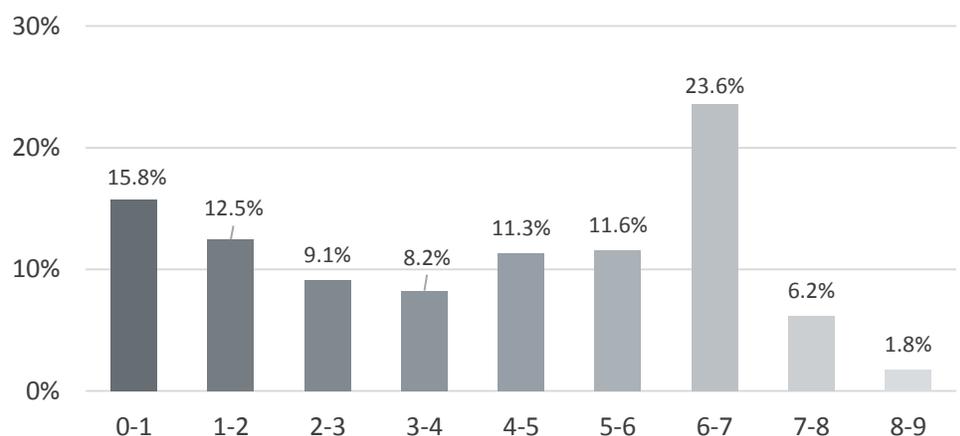
MARKET DYNAMICS

Over the quarter, corporate credit spreads tightened to levels not seen since February 2018. Fueling the steady decline in high grade bond spreads was a late year rally in risk assets as trade tensions deescalated and economic readings that began to show some resilience. For the full year, spreads contracted by nearly 60bps as domestic equities reached all-time highs. While current levels do not appear as attractive as they did to begin 2019, we see several reasons that 2020 should continue to see support for high grade debt. Lower net supply, still positive US growth, and an accommodative Federal Reserve for the foreseeable future should all continue to draw yield starved investors into U.S. corporate bonds. Bouts of volatility are certainly a possibility though, with rising Middle East tensions and the upcoming election as the primary catalysts.

DURATION PROFILE

COMPOSITE CHARACTERISTICS

Duration: 3.97 yrs
 Yield-to-Worst: 2.13 %
 Yield-to-Maturity: 2.15 %
 Maturity: 5.65 yrs





PERFORMANCE NOTES

Although US Treasury yields rose moderately over the quarter, the intermediate taxable strategy was well positioned to benefit from the aforementioned corporate credit spread tightening. Overall performance during the period was modestly ahead of benchmark with neutral-to-slightly longer duration and maturity positioning. The strategy’s overweight to investment grade corporate debt has been notably additive to total return over the course of the year as demand for positively yielding US debt has been exceptionally strong. Although cautious of potential spread widening catalysts mentioned above, our outlook does not see a significant deterioration in corporate credit health in the near-term. We continue to view our ability to select large, higher quality corporate issuers with sound balance sheets as a way to buffer potential volatility.

10-YR US TREASURY YIELD (%)

SOURCE: BLOOMBERG



2019

US CREDIT INDEX – SPREAD (%)

SOURCE: BLOOMBERG



2019

“The strategy’s overweight to IG corporate debt has been notably additive to total return over the course of the year as demand for positively yielding US debt has been strong.”

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.