Intermediate Maturity Taxable

Commentary – First Quarter 2020

Macro Overview

Simply put, financial markets were in complete disarray in March as the spread of COVID-19 paralyzed the global economy. US equities had their worst Q1 ever with the S&P and Dow down approximately 20% and 23%, respectively. Sovereign bond yields plummeted across the curve as the risk-off trade intensified throughout the quarter. Yields on the 2, 10, and 30 year UST were lower by 132bps, 125bps, and 106 bps, with 10s and 30s reaching all-time lows. The Fed took drastic measures in March, cutting its benchmark interest rate to zero while simultaneously launching a massive round of quantitative easing that included $700 billion of asset purchases. Meanwhile, Congress moved quickly to pass a $2+ trillion coronavirus emergency aid package in an attempt to soften the economic impact on American workers and businesses.

- Oil prices plummeted more than 60% in the quarter after Saudi Arabia and Russia failed to reach an agreement on production, leading to an all-out price war amid weakening demand during the pandemic. Without a diplomatic breakthrough, the price war could continue well into 2020.
- With approximately 311 million people in 41 states being urged to shelter in place and businesses large and small shuttering daily, unemployment rates have exploded. Street estimates for GDP declines in Q2 range from -8% to as much as -40%.
- With a recession looming, the depth and breadth (and ensuing recovery) will depend on 1) the progression and spread of the virus and 2) the fiscal and monetary responses. Have the Fed and Congress done enough, or are additional stimulative measures required?

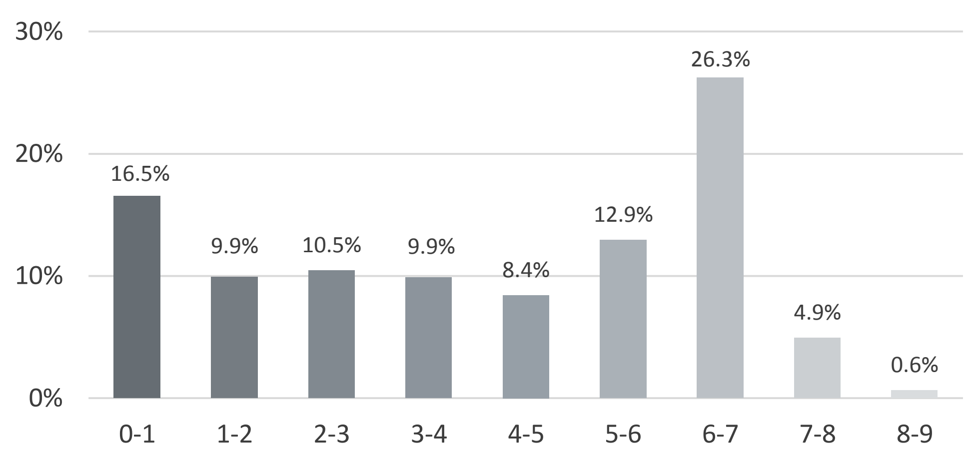
Market Dynamics

Like all markets during the month of March, investment grade corporate credit experienced some of the most volatile weeks on record as liquidity challenges arose in even the most widely traded fixed income markets. At the height of the panic, the Bloomberg Barclays US Aggregate Credit Index widened by approximately 250bps from where it finished February, ultimately reaching a spread of 373bps. For context, spreads on this index were in excess of 600bps in late 2008. As it stands now, market liquidity has certainly improved as supportive fiscal and monetary policies have been swift and meaningful. In particular, the Federal Reserve will be implementing secondary and primary market buying programs for IG corporate bonds and ETFs that should continue to help the market move forward and to provide corporations access to funding.

Composite Characteristics

Duration: 4.01 yrs
Yield-to-Worst: 2.06 %
Yield-to-Maturity: 2.08 %
Maturity: 5.72 yrs

Duration Profile



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Performance Notes

As credit spreads moved sharply higher over the quarter, the strategy's overweight to investment grade corporate debt was a detractor to overall total return. However, Caprin's consistent approach to selecting higher quality corporate issuers with sound balance sheets helped buffer volatility versus other lower rated credit strategies. Looking forward, the economic damage from the forced closure of much of the US economy remains an unknown. Many corporations are now focusing their attention on bondholder-friendly balance sheet actions (e.g. reducing buybacks and dividends), but we believe trading volatility will persist near-term. Within portfolios, we continue to monitor the credit condition of corporate issuers held while looking for opportunities to buy Treasuries, GSEs, and even highly rated municipal debt as the economic path ahead evolves.

10-YR US Treasury Yield (%)

Source: Bloomberg

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have been swift and meaningful."

US Credit Index – Spread (%)

Source: Bloomberg

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