

Fixed Income Update - July 2018 RIA Pro



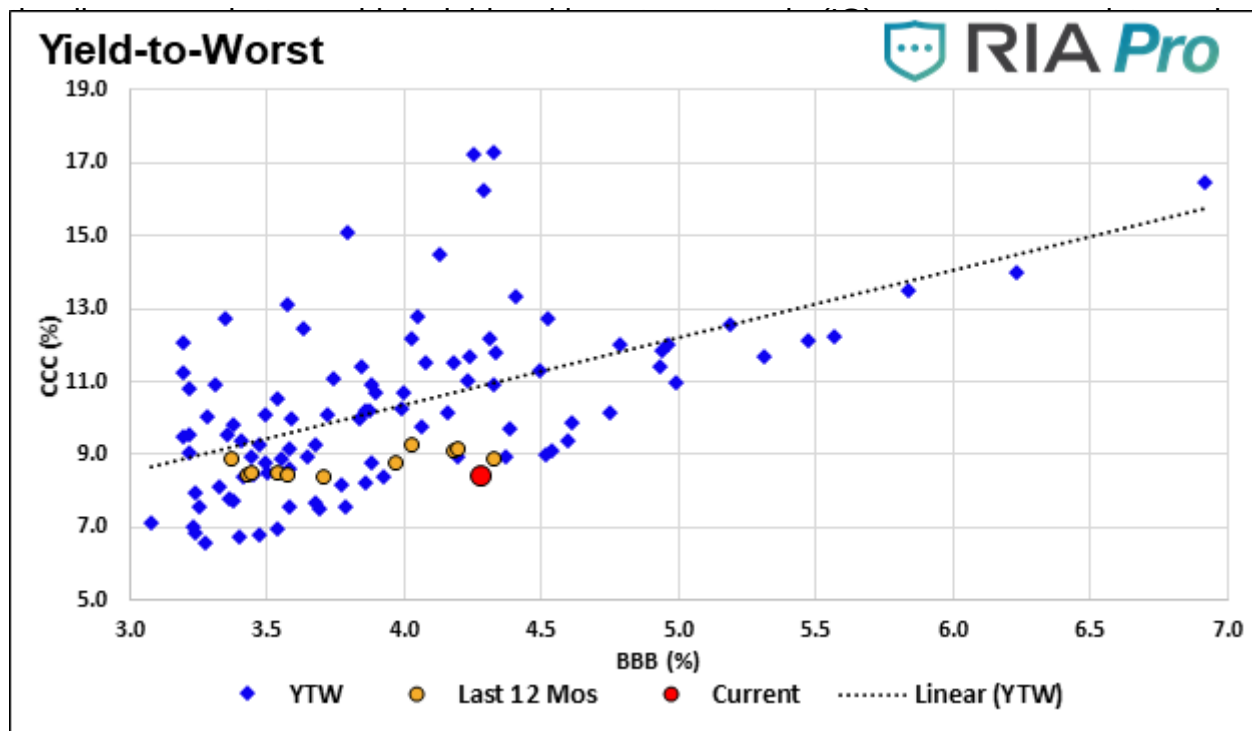
Shrugging off economic growth, inflation and U.S. Treasury supply concerns that seem to have plagued the fixed-income markets for the past few months, most bond sectors staged a healthy rally in July as performance reflected the risk-on flavor for the month. The riskiest sectors,

 RIA Pro	MTD Total Return	3 Month Total Return	YTD Total Return	12 Month Total Return	Current Yield to Worst
U.S. Aggregate	0.02	0.61	-1.59	-0.80	3.36
Agg. Treasury	-0.42	0.50	-1.48	-1.23	2.83
Agg. Investment Grade - Corp.	0.83	0.78	-2.47	-0.73	3.99
Agg. High Yield - Corp.	1.09	1.47	1.26	2.60	6.31
Agg. Securitized (ABS, MBS, CMBS)	-0.10	0.64	-1.05	-0.43	3.48
Agg. Investment Grade - Muni.	0.24	1.48	0.01	0.99	2.66
Agg. Emerging Markets	1.65	0.24	-2.24	-0.26	5.59
Data as of 7/31/2018					

mortgages,

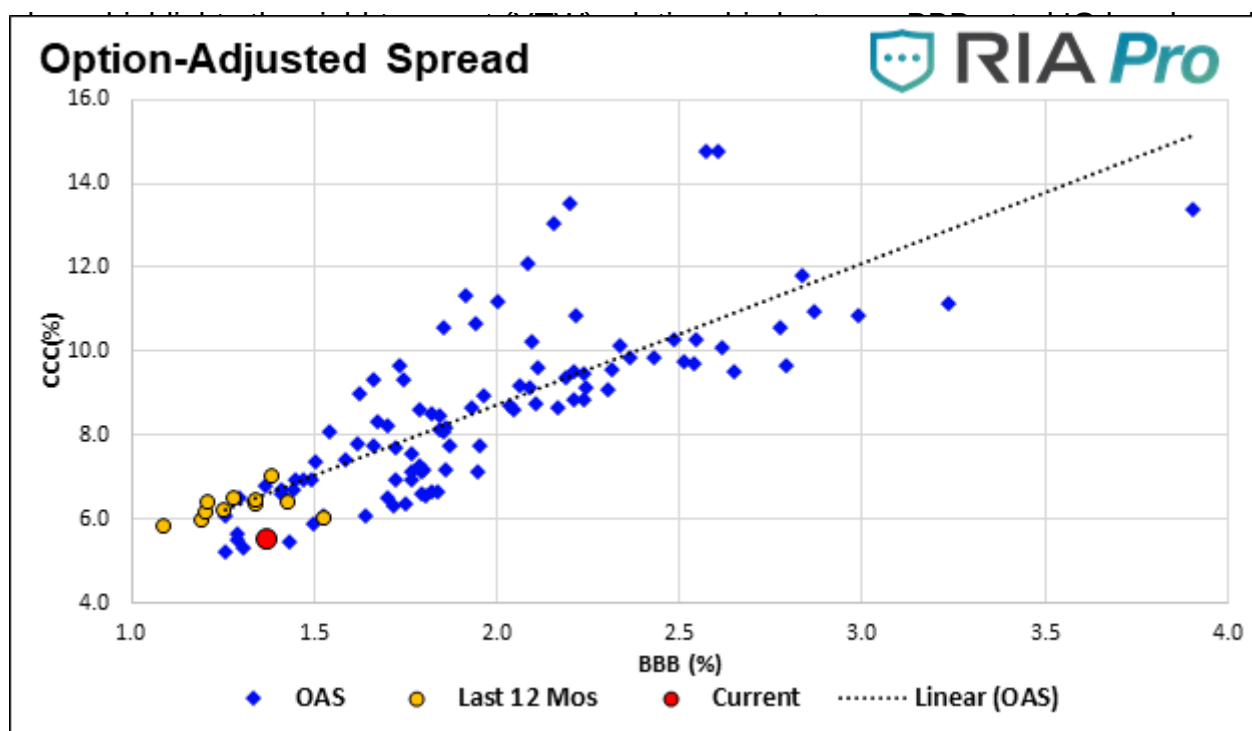
Anxieties

surrounding trade and tariffs were overshadowed by comments from the Federal Reserve (Fed) that were broadly very constructive for the U.S. economy. In his quarterly testimony to Congress, Fed Chairman Powell emphasized a favorable outlook due to strong labor markets and the lift from fiscal policy stimulus. Those positives outweighed the downside risk emanating from rising protectionism. Year-to-date, only the high-yield sector is in the black, municipals are essentially flat and every other sector is posting a negative return. Although much improved in July, emerging market bonds continue to struggle but with good reason given the political and foreign exchange disruptions in many places like Turkey, Argentina, Brazil and South Africa. Somewhat strangely,



represent
e bonds in
high yield

The chart



CCC-
e trendline
% yield. If
of 12%.

In terms

of spread, CCCs would need to move higher by 100 basis points to 6.50 or the BBBs would need to drop by roughly 50 basis points. **In our opinion it is worth looking into a trade whereby you are long BBBs and short CCCs.** What makes this idea even more compelling is the comparative credit risk advantage. According to S&P ratings analysis, roughly 40% of CCC-rated bonds will default within 3 years while the risk to BBB-rated bonds is less than 2%.