Monthly Fixed Income Review - October 2018

October 2018 was decidedly a ?risk-off? month and posed a challenge for every asset class within the fixed-income market. In terms of total return, U.S. Treasuries performed the best (down -0.48%) while investment grade corporates, high-yield and emerging market bonds all posted losses of over 1%. For emerging markets, it was the worst monthly performance since November 2016 and for high-yield, the worst since January 2016. Year-to-date, however, only the high-yield sector remains positive up +0.96%.

RIA Pro	MTD Total Return	3 Month Total Return	YTD Total Return	12 Month Total Return	Current Yield to Worst
U.S. Aggregate	-0.79	-0.79	-2.38	-2.05	3.59
Agg. Treasury	-0.48	-0.65	-2.13	-1.97	3.03
Agg. Investment Grade - Corp.	-1.46	-1.33	-3.79	-3.02	4.28
Agg. High Yield - Corp.	-1.60	-0.32	0.96	0.97	6.86
Agg. Securitized (ABS, MBS, CMBS)	-0.61	-0.59	-1.63	-1.48	3.73
Agg. Investment Grade - Muni.	-0.62	-1.01	-1.00	-0.51	3.01
Agg. Emerging Markets	-1.37	-1.40	-3.63	-3.39	6.05
Data as of 10/31/2018					

RIA Pro	MTD Total Return	3 Month Total Return	YTD Total Return	12 Month Total Return
AGG (U.S. Aggregate)	-0.64	-0.70	-2.63	-2.04
GOVT (Agg. Treasury)	-0.41	-0.59	-2.09	-1.90
LQD (Agg. Investment Grade - Corp)	-2.05	-2.17	-5.20	-4.17
HYG (Agg. High Yield - Corp.)	-1.98	-0.77	0.47	0.35
MBB (Agg. Securitized (ABS, MBS, CMBS)	-0.60	-0.60	-1.84	-1.72
MUB (Agg. Investment Grade - Muni.)	-0.56	-1.08	-1.51	-0.97
EMB (Agg. Emerging Markets)	-2.52	-2.84	-6.78	-5.88
Data as of 10/31/2018				

A new addition to the monthly fixed-income review is a composite of spread changes as seen in the table below. The data in this table are option-adjusted spreads (OAS). Positive numbers reflect spread widening or higher yields relative to the benchmark which is what normally occurs in months of poor performance. Negative numbers are spread tightening which is constructive. The OAS is measured in relation to the U.S. Treasury benchmark curve.

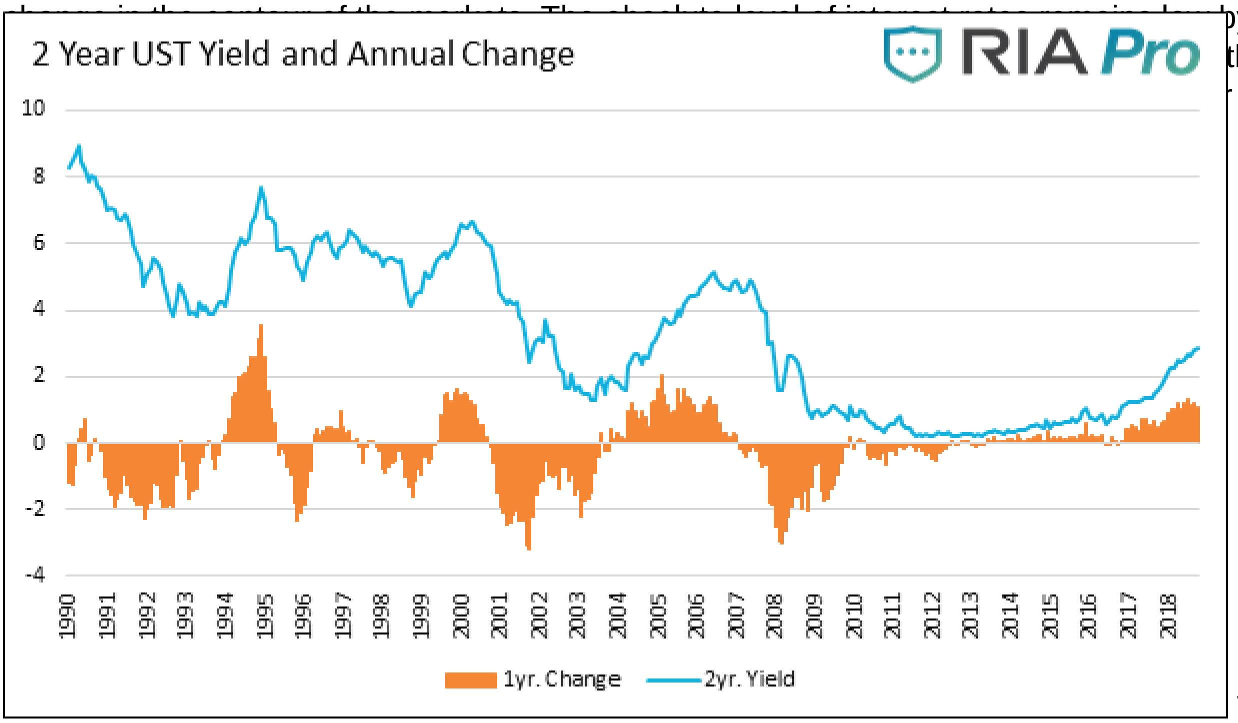
RIA Pro	Spread (OAS)	1 Month Chg.	3 Month Chg.	YTD Chg.	YoY Chg.
U.S. Aggregate	0.44	0.05	0.05	0.11	0.09
Agg. Treasury	n/a	n/a	n/a	n/a	n/a
Agg. Investment Grade - Corp.	1.17	0.12	0.09	0.32	0.23

As illustrated in the table, most OAS spreads are wider across every time frame but not dramatically so. The fact remains that in a historical context, spreads remain very tight to the benchmark. As a point of comparison, current high-yield spreads are 3.71% (371 basis points) above the benchmark curve. In January 2016, they were 7.33% above the benchmark. In a rather unusual turn of events, despite the sell-off in equity markets, Treasury yields uncharacteristically rose. Over the course of the past 30 years, when we have seen stress emerge in risky assets like that which o ... ields fall. One could a ... t February

	1/31/2018	3/29/2018	Chg	Pct
SP500	2823	2640	-183	-6.48%
2-Yr Tsy	2.141	2.266	0.125	5.84%
10-Yr Tsy	2.705	2.739	0.034	1.26%

	10/1/2018	10/31/2018	Chg	Pct
SP500	2924	2711	-213	-7.28%
2-Yr Tsy	2.819	2.867	0.048	1.70%
10-Yr Tsy	3.084	3.144	0.060	1.95%

and March. This irregular relationship may be due to one of a couple of factors, some of both or another unidentified dynamic. Either (1) the correction in equity markets did not stir investors? fear of a deeper correction given the strength of the economy or (2) on-going concern about heavy U.S. Treasury supply prevented yields from falling. In any event, it is highly unusual and may represent a troubling ... by historical ... the *change* ... periods



The implications of higher interest rates are beginning to show in housing and auto activity. Neither industry, both vital to economic growth in the recent expansion, is collapsing but both are demonstrating a clear weakening trend. In the modern age of excessive debt, this is how topping markets typically progress. October unveiled another bout of higher volatility, higher interest rates and falling asset prices. This may be a temporary setback but given the age of the cycle, how tight credit spreads are, and the economy?s dependence on debt, we would not advise throwing caution to the wind.