TAXABLE BOND
MONTHLY COMMENTARY

APRIL 2019

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The End of "Normalization"

HIGHLIGHTS

- Investor sentiment remained buoyant, supported by dovish Fed minutes, decent earnings and signs of stability in the global growth outlook.
- Despite a near-record economic expansion and the tightest labor market in fifty years, the Fed continued to be stymied in their efforts to achieve symmetry around their 2% inflation target.
- Central banks around the world joined the Fed in signaling their willingness to pursue further stimulus as conditions warranted.

INTEREST RATES

Treasury yields rose in April amid signs of stabilization in the global economy. The flight-to-safety that prevailed in the closing days of Q1 gave way to more upbeat sentiment on encouraging growth data out of the U.S., China and the Eurozone. This strength, coupled with tepid inflation data, led to accommodative guidance from central banks around the world.

The minutes from the FOMC's March meeting conveyed policy members' comfort with leaving rates unchanged for the rest of 2019. The extraordinary emphasis on "patience" from the committee prompted a growing number of investors to conclude that the next move in rates would be lower. This perception had the effect of steepening the Treasury yield curve with the spread between 2-10's reaching its highest level of the year. Though perhaps most notably, the headline-grabbing inversion of the 3-month bill and 10-year note reversed decisively back to positive territory, allaying concerns about an imminent recession.

U.S. Treasury Market - April 30, 2019

	4/30/19	Yield Change (bps)			Performance		
Maturity	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-year	2.27%	0	0	-22	0.18%	0.18%	1.16%
5-year	2.28%	+4	+4	-23	0.00%	0.00%	1.86%
10-year	2.50%	+9	+9	-19	-0.58%	-0.58%	2.48%
30-year	2.93%	+11	+11	-9	-2.00%	-2.00%	2.88%

Source: Bloomberg, FactSet
Performance represents total returns of the Bloomberg Barclays U.S. Treasury Bellwethers Index for the maturities shown

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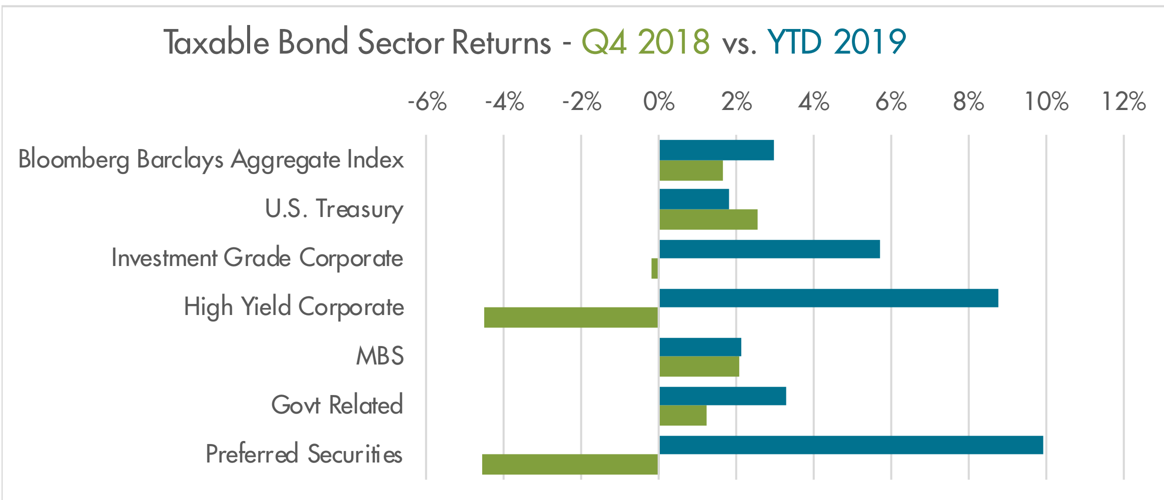
CREDIT

Corporate bonds extended their year-to-date gains as credit spreads reached their tightest levels in more than five months. However, the rally stalled in the back half of the month as investors waded through first quarter earnings. On balance, sales have been roughly in line, while earnings have solidly beaten. With the Fed effectively out of the picture and fears of an end to the credit cycle largely dispelled, investors continued to show a healthy appetite for lower-rated credit in both investment grade and high yield. Year to date, BBBs and CCCs have been the best performing segments of their respective markets.

The technical picture continues to support spreads. Demand for credit product remains robust, with investment grade inflows 66% higher than a year ago and high yield flows this year off to their best start since 2012. At the same time, new supply has been lower than expected. Investment grade issuance is down 6% from a year ago, while high yield is essentially flat. In addition to this favorable backdrop, credit fundamentals are solid and the default rate remains low. As a result, our outlook for credit remains constructive



SECURITIZED

Mortgage-backed security returns slightly lagged similar duration Treasuries due to modest spread widening. Increased supply and lower rate volatility weighed on the sector, which saw its OAS reach its highest level in more than four years. Within the space, higher coupon specified pools outperformed as a surge in refinancing activity raised concerns about prepayment speeds. We continue to see value in the sector, given its increasingly attractive carry and a positive technical setup on the back of the Fed's decision to accelerate the conclusion of its balance sheet run-off.

OUTLOOK

Our outlook for U.S. markets remains constructive as growth concerns ease, inflation remains subdued and central banks are biased toward accommodation. The case for risk assets is also intact, given a healthy and confident consumer, a decent outlook for corporate earnings, and valuations that have room to run. With respect to catalysts, we see the eventual positive resolution of trade tensions as the most significant near-term driver of upside. As such, we continue to favor the credit space, where we see opportunity now that further tightening from the Fed seems much less likely. Within credit, we see attractive "carry and roll" from the upward sloping yield curve, with a particular preference for the more rate-sensitive and consumer-oriented industries.

INDEX CHARACTERISTICS AND PERFORMANCE

April 30, 2019	CHARACTERISTICS			PERFORMANCE		
Index	**Yield to Worst**	**OAD (Years)**	**OAS (bps)**	**MTD**	**QTD**	**YTD**
Bloomberg Barclays U.S. Aggregate Bond	2.97%	5.89	44	0.03%	0.03%	2.97%
U.S. Treasury	2.41%	6.15	0	-0.28%	-0.28%	1.83%
Bloomberg Barclays U.S. Government Related	3.00%	5.46	59	0.18%	0.18%	3.30%
Bloomberg Barclays U.S. Corporate Investment Grade	3.60%	7.41	111	0.54%	0.54%	5.71%
Bloomberg Barclays U.S. Mortgage-Backed Securities	3.19%	4.36	41	-0.06%	-0.06%	2.11%
Bloomberg Barclays U.S. Asset-Backed Securities	2.68%	2.19	38	0.26%	0.26%	1.75%
ICE BofAML Fixed Rate Preferred Securities	3.54%	4.31	76	1.11%	1.11%	9.91%
Bloomberg Barclays High Yield	6.12%	3.38	358	1.42%	1.42%	8.78%
Bloomberg Barclays High Yield - BB	4.71%	3.73	218	1.11%	1.11%	8.40%
Bloomberg Barclays High Yield - B	6.13%	3.08	357	1.56%	1.56%	8.88%
Bloomberg Barclays High Yield - CCC	9.64%	3.13	714	2.03%	2.03%	9.32%
Bloomberg Barclays High Yield BB 1-5 Year	4.05%	1.93	163	0.79%	0.79%	5.98%