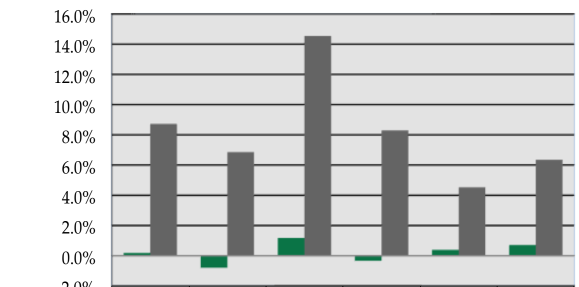
FIXED INCOME OVERVIEW

Risk markets rallied on tangible progress in the ongoing U.S./China trade negotiations while investment grade bonds struggled on concerns of a steepening yield curve and higher interest rates. For the quarter, the Bloomberg Barclays Aggregate Index gained just 18 basis points with corporate bonds leading the way.

Index Sector Performance



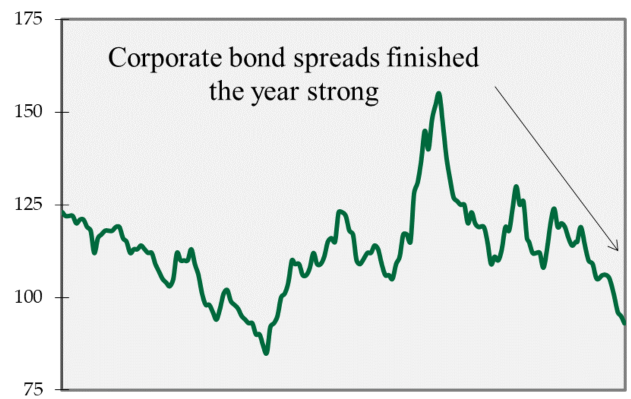
	INDEX	Tsy	Corp	CMBS	ABS	Agency MBS
Q4 '19	0.18%	-0.79%	1.18%	-0.33%	0.39%	0.71%
Year to Date	8.72%	6.86%	14.54%	8.29%	4.53%	6.35%

Source: Bloomberg

We note that the potential for further curve steepening exists, and therefore we favor short treasuries as the Fed is unlikely to raise interest rates in an election year, but could be quick to lower.

CREDIT SPREADS

Corporate bonds continued their rally throughout the fourth quarter as investors embraced the prospects of an improving economy, along with a very manageable supply technical in early 2020. Financials did well thanks in part to the steepening yield curve, while industrials rallied on strength in oil and an uptick in global manufacturing data. Corporate bond spreads are well inside their 3-year average of 113. We are neutral to slightly negative on corporates given current valuations.



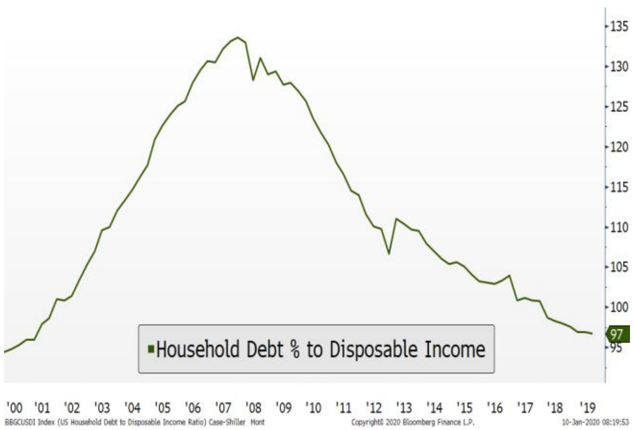
Source: Bloomberg

THE ECONOMY

We remain optimistic on the prospects for the U.S. economy as we ring in the new decade. After a year plus of trade-related rhetoric and angst, we feel as though the tides might be turning as it relates to global trade and manufacturing. Central bankers around the world, including China, have implemented a lot of stimulus over the last couple of years, which is just beginning to show in the Global PMI readings as this number hovers around 50 after dipping below in June. Our managers believe we could be at the start of a mini cycle of strength. Perhaps this will lend some confidence to business leaders to potentially invest in new capex programs to further push the economy and employment.

Source: Bloomberg, JPMorgan

Meanwhile, the U.S. consumer continues to hold up their end of the bargain, as retail sales have been decent and housing generally robust. Low interest rates, hefty stock market gains, strong employment and wage growth of around 3% continue to bolster their prospects. The U.S. saving rate moved from 6% to 8%, while consumer debt as a percentage of disposable income is near 20-year lows. The backdrop for consumers looks to be on solid ground.

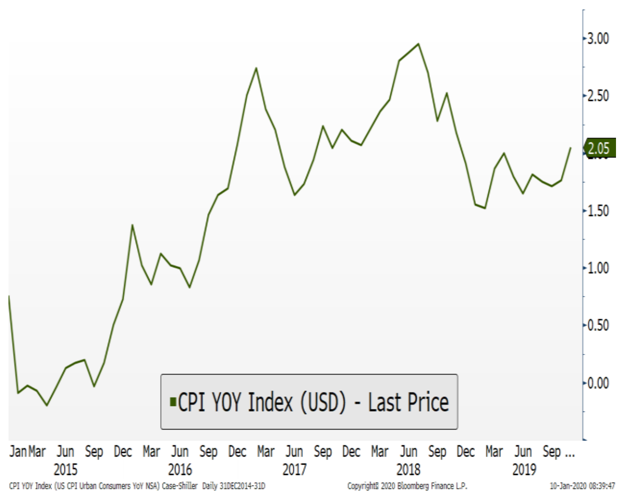


Source: Bloomberg

INFLATION AND THE FED

Central banks around the world have been and remain quite accommodative. Our stance is that we are not willing and should not be fighting the Fed nor all the central banks, and definitely not all of them at once. The combined balance-sheet growth of the ECB, Federal Reserve and Bank of Japan will reach almost $100 billion a month by the end of this year, which is a staggering statistic. We are watching the ECB transition between Draghi and Christine Lagarde and though it will be difficult to be as dovish as Draghi, we do not feel Lagarde will be a hawk.

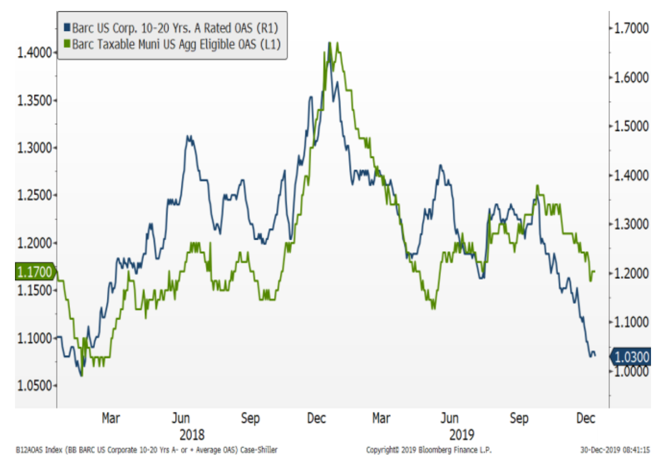
Although we are far from seeing the entire effects from the all the monetary stimulus, we can report that consumer and producer inflation here in the U.S. remains quite tame, with CPI ticking in just above 2% and Core PCE (the Fed's preferred measure) at 1.6%.



Source: Bloomberg, Bureau of Labor Statistics

FIRST QUARTER STRATEGY

With much of the worry surrounding trade off the table from last year, the market could be challenged to come up with an excuse for a large sell-off. We do not plan to go significantly underweight corporate bonds given our economic outlook, but we recognize that valuations and a desire to err on the side of conservatism will allow us to trim some positions. Our portfolio managers will continue to be overweight structured bonds (ABS, MBS and CMBS) and we believe municipal bonds have a better risk/return profile than high quality corporate bonds right now. High quality, index-eligible taxable munis are trading about 20 basis points cheap to similarly-rated corporate bonds right now.



Source: Bloomberg

Mark R. Anderson, CFA
Chief Strategy Officer

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