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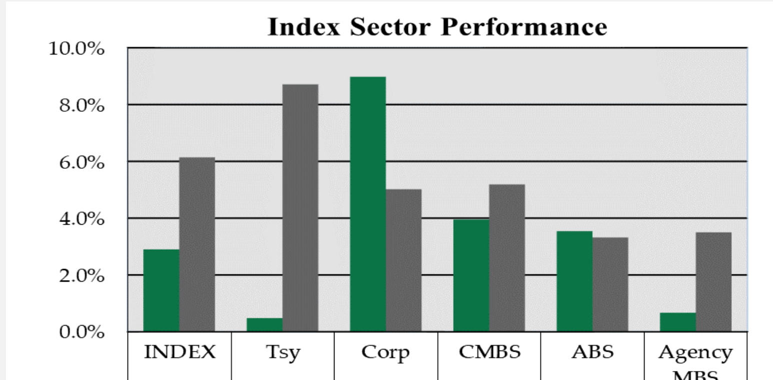
SECOND QUARTER 2020 — *INVESTMENT REVIEW*

TRADITIONAL CORE AND INTERMEDIATE FIXED INCOME

Risk markets enjoyed a very strong second quarter as investors looked past the Covid-related human, societal and economic damage, along with meaningful social discontent and a highly partisan political backdrop. The phrase "don't fight the Fed" has rarely seemed so true and bond investors witnessed this positive sentiment push returns almost 3% higher as corporate debt was again popular despite a very heavy new issuance calendar. For the quarter, the Bloomberg Barclays Aggregate Index gained a healthy 2.90% on strength in the corporate, ABS, and CMBS sectors. It was just a quarter ago when these sectors lagged treasuries by a very wide margin. Our portfolio managers have welcomed the more normalized trading environment and we have used some of the market strength to move up in either quality or liquidity.



	INDEX	Tsy	Corp	CMBS	ABS	Agency MBS
Q2 '20	2.90%	0.48%	8.98%	3.95%	3.54%	0.67%
YTD	6.14%	8.71%	5.02%	5.19%	3.32%	3.50%

Source: Bloomberg

CREDIT SPREADS

Corporate credit spreads rallied during the second quarter in part due to optimism for future economic growth and on the Fed's buying of both fixed income ETFs as well as their outright purchases of corporate bonds. While the absolute dollar amounts of these purchases are not large in comparison to the overall market, their signal buoyed the confidence of market participants to follow suit. This was readily apparent in shorter duration, index-eligible deals, which was a huge change vs. one quarter ago where early selling in this segment preceded the massive Covid-related selling in late March. (Cont.)

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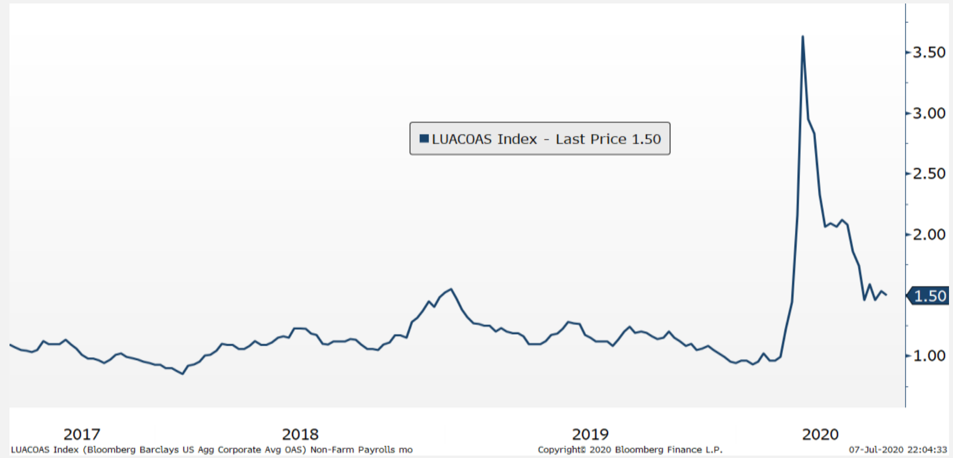
CREDIT SPREADS

(Cont.) The chart to the right highlights a sharp rally in index-related corporate credit, but it also displays that spreads remain somewhat wide of recent historical norms and that there might be more of a rally ahead. Certainly, the pace of new cases, along with what companies report and say during the upcoming earnings season, will set the market tone, but given a very low-yielding government bond market and a muted supply calendar, it seems reasonable to believe there might be more tightening ahead.



Source: Bloomberg

FISCAL AND MONETARY POLICY

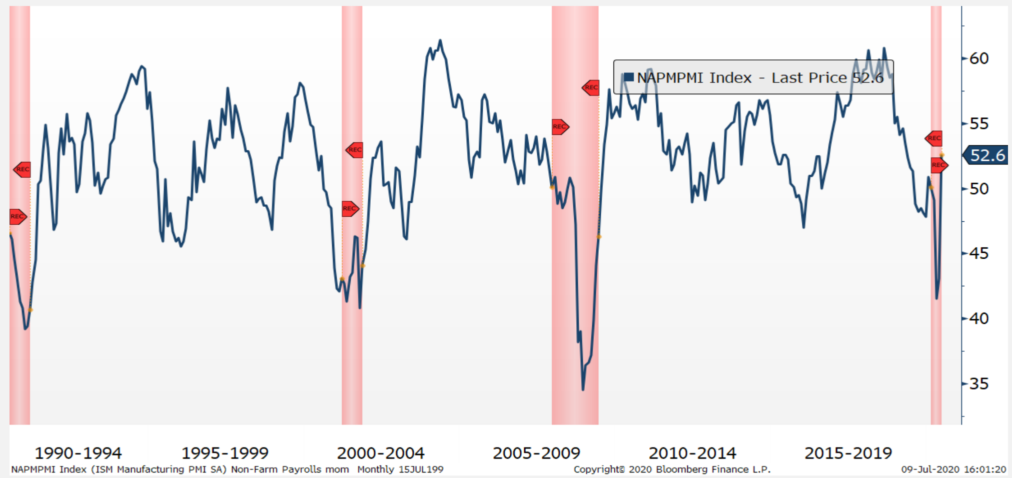
Fortunately, for the economy and the markets in general, our government and governments around the world have answered the call with regard to monetary support. The chart to the right depicts a very large year-over-year increase in the M2 money supply, which tends to correlate well to increased GDP growth with a lag of about 6 months. Policy-makers in Washington D.C. are discussing whether to release another round of fiscal stimulus to both extend benefits as well as provide assistance to some sectors of the economy that were left out of the earlier programs. Like most things in D.C., it ties back to politics, but we believe that after the posturing and the recent spike in new Covid cases, the odds of a package rumored to be around $1 trillion have increased markedly over the last few weeks.

Source: Bloomberg and Federal Reserve

THE ECONOMY

While the uncertainty surrounding the reopening and the path of the virus is anyone's guess, we attempt to measure what we do know and that is improving data in an array of economic gauges. The single-family housing market has been notable in its strength as buyers take advantage of all-time low mortgage rates. Purchase applications are at a 12-year high despite high unemployment and an uncertain labor market. Individuals and consumers seem to be taking a glass half-full outlook as daily consumer confidence readings remain quite high and consumer credit card spending continues to rebound from the lows of late March.

The V-shaped recovery is unfolding in other areas as well, with an early uptick in rail shipments and better than expected auto sales thanks to incentives, low rates and pent up demand. New vehicle sales have also bolstered used car sales (up 15% YOY in June) and aided prices. Sentiment surrounding U.S. manufacturing is also looking healthier as the latest uptick in PMI data possibly points to better times ahead. We cannot help but think that some business leaders might turn to actually producing a few more things right here in the United States. We sure hope so!



Source: Bloomberg and Institute for Supply Management

THIRD QUARTER STRATEGY

While risk markets have been climbing the proverbial wall of worry over the last few months, as fixed income investors, we would be some of the first people to acknowledge the long and uncertain road that lies ahead. COVID-19 remains the headline-grabbing topic, but social discord, the upcoming Presidential election and rising tensions with China are but a few of the real issues that we consider when placing your assets while interest rates lie near their record low levels. The margin for error is somewhat slim; we therefore remain underweight duration to the tune of approximately 95% of index duration across most of our intermediate and core portfolio mandates.

(Cont.)

THIRD QUARTER STRATEGY

(Cont.)

Despite the strong rally that many of our sectors enjoyed in the second quarter, our managers are still seeing value within their respective sectors, but we are admittedly becoming choosier as the market digests its latest gains. Within our bank and finance sector, we still prefer the large banks to regionals, but we are currently finding decent value in names like MasterCard, with retail sales picking up. We also like Principal Financial, as they have a relatively low exposure to variable annuities and long-term care, as well as having a liquid and high quality investment portfolio. We remain cautious around commercial real estate and have been very careful around deals with higher levels of retail exposure. A recent REIT purchase is a company that caters to the life sciences office/lab industry with a 97% occupancy rate. This was a strong subsector of the real estate market pre COVID-19 and remains so now as companies focus research around this common theme. Our structured finance managers also like equipment-based ABS deals and non-agency MBS. Lastly, we believe that taxable munis still look cheap to similarly rated corporate debt and have been adding to this sector as new issue supply has offered attractive opportunities.

We thank each of you for your business and patience in the midst of this ever-evolving marketplace, and we remain optimistic that we can harvest some of these advantageous yield spreads on your behalf. Be safe.

Mark R. Anderson, CFA

Chief Strategy Officer

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