First Quarter 2019
Bond Market Review
and Outlook

Cincinnati Asset Management, Inc.
Investment Grade & High Yield Bond Specialists

"Fed Minutes: Officials See Little Need to Change Rates This Year" headline from The Wall Street Journal April 10, 2019

Annual Relative Total Return Ranking - USD Multi-Asset Class

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
S&P 500 33.3%	CCMP 40.2%	CCMP 86.1%	REITs 26.4%	REITs 13.9%	EM Sov 13.7%	EM Equity 55.8%	REITs 31.6%	EM Equity 34.3%	REITs 35.1%	EM Equity 39.7%	US Gov't 14.0%	EM Equity 78.9%	REITs 27.9%	Munis 11.2%	REITs 19.7%	CCMP 40.2%	REITs 28.0%	Prefs 7.6%	Russell 2000 21.3%	EM Equity 37.8%	Cash 1.8%	REITs 17.2%
Mid Cap 32.2%	S&P 500 28.5%	EM Equity 67.1%	Mid Cap 17.5%	High Grade 10.7%	US Gov't 11.6%	CCMP 50.8%	EM Equity 26.0%	Mid Cap 12.6%	EM Equity 32.5%	CCMP 10.7%	Mtges 8.3%	High Yield 57.5%	Russell 2000 26.8%	US Gov't 9.8%	EM Equity 18.6%	Russell 2000 38.8%	Prefs 15.4%	CCMP 7.1%	Mid Cap 20.7%	CCMP 29.7%	Munis 1.0%	CCMP 16.8%
Russell 2000 22.4%	Mid Cap 19.1%	Conv 36.0%	Munis 17.1%	Prefs 9.8%	Munis 10.7%	Russell 2000 47.3%	Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.3%	US Gov't 9.1%	Cash 1.7%	Loans 52.5%	Mid Cap 26.6%	REITs 8.3%	EM Sov 18.3%	Mid Cap 33.5%	CCMP 14.8%	Munis 3.6%	High Yield 17.5%	S&P 500 21.8%	Mtges 1.0%	Russell 2000 14.6%
CCMP 22.2%	Conv 12.2%	EM Sov 23.6%	Prefs 16.2%	Mtges 8.1%	High Grade 10.2%	REITs 37.1%	Mid Cap 16.5%	EM Sov 12.0%	S&P 500 15.8%	Mid Cap 8.0%	Munis -4.0%	Conv 45.6%	EM Equity 19.2%	EM Sov 8.2%	Mid Cap 17.8%	S&P 500 32.4%	S&P 500 13.7%	REITs 2.8%	S&P 500 12.0%	Mid Cap 16.2%	US Gov't 0.8%	Mid Cap 14.5%
REITs 20.3%	US Gov't 10.0%	Russell 2000 21.3%	EM Sov 14.7%	EM Corp 7.0%	EM Corp 9.4%	Mid Cap 35.6%	EM Sov 11.8%	EM Corp 5.7%	Conv 12.0%	Mtges 7.0%	High Grade -6.8%	CCMP 45.3%	CCMP 18.1%	High Grade 7.5%	CCMP 17.7%	Conv 26.6%	Conv 10.0%	Mtges 1.5%	Conv 11.9%	Conv 16.0%	Conv 0.7%	S&P 500 13.6%
Conv 15.5%	High Grade 8.7%	S&P 500 21.0%	US Gov't 13.4%	US Gov't 6.7%	Mtges 9.4%	S&P 500 28.7%	S&P 500 10.9%	Loans 5.3%	High Yield 11.8%	EM Sov 6.4%	EM Sov -10.2%	EM Corp 38.3%	Conv 15.7%	Mtges 6.1%	Russell 2000 16.4%	High Yield 7.4%	Munis 9.8%	S&P 500 1.4%	EM Equity 11.7%	Russell 2000 14.6%	Loans 0.6%	Conv 10.4%
EM Sov 15.1%	Mtges 7.2%	Mid Cap 14.7%	Mtges 11.3%	EM Sov 4.8%	Prefs 7.7%	High Yield 28.1%	High Yield 10.9%	S&P 500 4.9%	CCMP 10.9%	S&P 500 5.6%	EM Corp -17.5%	Mid Cap 37.3%	High Yield 15.2%	High Yield 4.4%	S&P 500 16.0%	Loans 5.4%	Mid Cap 9.7%	EM Corp 1.3%	Loans 10.4%	Prefs 10.6%	EM Corp -1.3%	EM Equity 9.9%
High Yield 13.3%	Munis 7.1%	EM Corp 14.5%	EM Corp 9.8%	High Yield 4.5%	REITs 3.8%	EM Sov 27.6%	CCMP 10.3%	Russell 2000 4.5%	EM Sov 10.6%	Cash 4.8%	Prefs -25.2%	REITs 28.0%	S&P 500 15.1%	EM Corp 4.2%	High Yield 15.6%	REITs 2.9%	High Grade 7.5%	US Gov't 0.8%	EM Corp 9.8%	EM Sov 10.0%	High Grade -2.2%	Prefs 8.7%
Munis 10.9%	Prefs 6.7%	Cash 4.7%	High Grade 9.1%	Munis 4.5%	Loans 2.6%	Conv 23.0%	EM Corp 8.9%	Munis 3.9%	Mid Cap 10.3%	High Grade 4.6%	High Yield -26.4%	EM Sov 27.2%	Prefs 13.7%	Prefs 4.1%	EM Corp 15.5%	Cash 0.0%	EM Sov 7.3%	EM Sov 0.6%	EM Sov 9.5%	REITs 8.7%	High Yield -2.3%	High Yield 7.4%
High Grade 10.4%	Loans 5.6%	Loans 4.1%	Cash 6.0%	Cash 4.1%	Cash 1.7%	EM Corp 14.5%	Conv 8.3%	Cash 3.0%	Prefs 8.1%	EM Corp 4.4%	Loans -29.3%	Russell 2000 27.1%	EM Corp 12.8%	S&P 500 2.1%	Conv 13.6%	EM Corp -1.3%	Mtges 6.1%	Loans 0.1%	CCMP 9.0%	High Yield 7.5%	CCMP -2.8%	EM Sov 6.4%
Prefs 10.0%	Cash 5.1%	High Yield 2.5%	Loans 5.1%	Loans 3.3%	High Yield -1.9%	Loans 9.8%	Munis 5.5%	US Gov't 2.8%	Loans 6.9%	Conv 3.9%	Conv -29.4%	S&P 500 26.4%	EM Sov 12.5%	Loans 1.5%	Prefs 13.6%	Mtges -1.4%	US Gov't 6.0%	Cash 0.0%	REITs 8.6%	EM Corp 7.3%	REITs -4.0%	EM Corp 5.2%
US Gov't 9.6%	High Yield 3.0%	Mtges 1.6%	Russell 2000 -3.1%	Russell 2000 2.5%	Conv -3.1%	Prefs 9.4%	High Grade 5.4%	High Yield 2.7%	EM Corp 6.6%	Munis 3.3%	Russell 2000 -33.8%	Prefs 20.1%	Loans 10.4%	Cash 0.1%	High Grade 10.4%	High Grade -1.5%	Russell 2000 4.9%	High Grade -0.6%	High Grade 6.0%	High Grade 6.5%	Prefs -4.3%	High Grade 5.0%
Mtges 9.3%	Russell 2000 -2.5%	High Grade -1.9%	High Yield -5.1%	Mid Cap -0.6%	EM Equity -5.9%	High Grade 8.3%	Loans 5.3%	Mtges 2.6%	Mtges 5.3%	High Yield 2.2%	Mid Cap -36.2%	High Grade 19.8%	High Grade 9.5%	CCMP -0.8%	Loans 9.8%	EM Equity -2.3%	EM Corp 3.7%	Conv -1.2%	Prefs 2.3%	Munis 5.4%	S&P 500 -4.4%	Loans 4.0%
Loans 7.5%	EM Sov -15.3%	US Gov't -2.4%	Conv -7.5%	EM Equity -2.4%	Mid Cap -14.5%	Munis 6.2%	Prefs 5.1%	CCMP 2.1%	Munis 5.0%	Loans 2.0%	S&P 500 -37.0%	Munis 14.5%	US Gov't 5.9%	Mid Cap -1.7%	Munis 7.3%	Munis -2.9%	High Yield 2.5%	Mid Cap -2.2%	Mtges 1.7%	Loans 4.3%	EM Sov -4.6%	Munis 2.9%
Cash 5.3%	REITs -17.5%	Prefs -4.4%	S&P 500 -9.1%	Conv -2.9%	Russell 2000 -20.5%	Mtges 3.3%	Mtges 4.7%	High Grade 2.0%	Cash 4.8%	Russell 2000 -1.6%	REITs -37.7%	Mtges 5.8%	Mtges 5.7%	Conv -3.8%	Mtges 2.6%	US Gov't -3.3%	Loans 1.8%	Russell 2000 -4.4%	US Gov't 1.1%	Mtges 2.4%	Russell 2000 -11.0%	Mtges 2.3%
EM Equity -11.6%	EM Equity -26.0%	REITs -4.6%	EM Equity -30.7%	S&P 500 -11.9%	S&P 500 -22.1%	US Gov't 2.3%	US Gov't 3.5%	Prefs 1.0%	High Grade 4.4%	Prefs -11.3%	CCMP -40.0%	Cash 0.1%	Munis 2.3%	Russell 2000 -4.2%	US Gov't 2.2%	Prefs -3.7%	Cash 0.0%	High Yield -4.6%	Munis 0.4%	US Gov't 2.4%	Mid Cap -11.1%	US Gov't 2.2%
EM Corp na	EM Corp na	Munis -6.3%	CCMP -39.2%	CCMP -20.8%	CCMP -31.2%	Cash 1.1%	Cash 1.3%	Conv -0.2%	US Gov't 3.1%	REITs -15.7%	EM Equity -53.2%	US Gov't -3.7%	Cash 0.1%	EM Equity -18.2%	Cash 0.1%	EM Sov -5.8%	EM Equity -2.0%	EM Equity -14.6%	Cash 0.2%	Cash 0.8%	EM Equity -14.3%	Cash 0.6%

Source: CreditSights, ICE BofAML, S&P/LSTA, Bloomberg. EM Equity is USD MSCI Emerging Market Index, Mid Cap is S&P Mid Cap 400 Index, CCMP = NASDAQ
EM Sov is USD EM Sovereign <= BBB index, EM Corp is USD EM Corporate Plus Index, Cash = 0-3 US Treasury Bill Index, REITs = FTSE NAREIT equity REIT index
data as of Mar 31, 2019

Please join the team at CAM in welcoming Erin Daugherty, CFA. Erin joins our group of seven credit analysts/traders. She has a wealth of bond market experience having worked at Moody's for five years, AllianceBernstein for seven years and, most recently, Ohio National. We are very fortunate to have Erin on our team.

The outlook for interest rates has steadily evolved over the first quarter. Now the Fed is unanimous in their outlook with all members voting to maintain the current level of interest rates (source: Federal Reserve board press release 3/20/19) . Furthermore, the minutes infer that the members have an aversion to increasing interest rates further, because of the increasing risks to the U.S. economy from slowing global growth and lower inflation, that surprised Fed officials.

The markets share the benign interest rate outlook and go further by signaling a possible decline in rates. The anticipation for lower rates down the road was reflected by the inversion of the Treasury yield curve experienced a few weeks ago. Today, April 17, the curve is essentially flat with the 3-month T-Bill yielding 2.43%, the 5-year Note yielding 2.40% and the

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Yields* on 03/31/2019	**Yield***
CAM Broad Market (corporate core plus) Strategy (6.9 year maturity; 5.5 duration)	**4.02%**
CAM Investment Grade (100% corporate bonds) Strategy (7.3 year maturity; 6.0 duration)	**3.41%**
CAM High-Yield Strategy (only BB & B rated purchased) (6.4 year maturity; 4.4 duration)	**5.36%**
CAM Short Duration Strategy (3.5 year maturity; 2.5 duration; 50% IG & 50% HY)	**3.83%**
CAM Short Duration Investment Grade Strategy (3.1 year maturity; 2.9 duration)	**2.86%**
Tax Equivalent Muni GO Bond (7 year, 1.94%) Bloomberg Barclays Institutional Index (Yield to right is after 40% tax equivalency and 3-point retail price markup for small buys under $1 M)	**2.37%**
U.S. Treasury** (10 year maturity)	**2.41%**
U.S. Treasury** (5 year maturity)	**2.23%**
U.S. Treasury** (2 year maturity)	**2.26%**

* The lower of yield to maturity or yield to worst call date ** Source: Bloomberg Barclays

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CAM's Key Strategic Elements

- Bottom-up credit analysis determines value and risk.
- Primary objective is preservation of capital.
- Larger, more liquid issues preferred.
- Target is always intermediate maturity.
- No interest rate forecasting.
- <u>All</u> clients benefit from institutional trading platform and multi-firm competitive bids and offers.

CAM returns are after CAM's average management fee & all transaction costs but before any broker, custody or consulting fees.	Total Return (%)	Annualized Returns (%)			
	1Q '19	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	5.54	5.50	3.48	2.83	6.43
CAM High Yield "Upper Tier" Strategy—Net only purchase BB and B; no purchases of CCC & lower	7.13	5.17	5.17	1.73	7.40
Lipper High Yield Mutual Funds Average	7.21	4.69	7.05	3.43	9.43
CAM Investment Grade Strategy—Net 100% corporate bonds	4.89	5.85	2.74	3.35	6.01
Lipper A-rated Bond Funds Average	4.88	4.84	3.26	3.62	5.61
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	3.52	4.36	3.61	1.10	5.20
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	2.60	4.19	1.76	2.15	4.78

Relative Performance Review 03/31/2019

CAM's **Investment Grade Strategy** ("**IG**") produced a gross total return of 4.95% in the quarter ended March 31, 2019, compared to 5.14% for the Bloomberg Barclays U.S. Corporate Index. IG underperformed the index in Q1 due to the relative outperformance of the "BBB-rated credit subsector. IG's investment policy caps BBB-rated bonds at 30%. The index weighting for BBB-rated bonds currently approximates 50%. The 12-month return for the CAM IG strategy was 6.10% compared to the index return of 4.94%. The 12-month performance exceeded the index as BBB-rated corporate bonds did not meaningfully outperform relative to A-rated corporate bonds. IG has underperformed versus the Index over longer periods, again from the general outperformance of the BBB-rated cohort.

The **High Yield Strategy** (**"HY"**) delivered a gross total return of 7.22% in Q1 while the Bloomberg Barclays High Yield Index returned 7.26%. The HY 12-month return was 5.52% while the Bloomberg Barclays High Yield Index returned 5.93%. HY approximated the Index return for the quarter despite not having any exposure to "CCC" and lower credit subsectors of the Index, which outperformed the Index as a whole. HY is always underweight these low credit subsectors believing their credit profiles and price volatility are inappropriate for many investors. HY trailed in the 12-month period in part because of the outperformance of the lowest rated HY credit subsector and our longer duration, which also is a function of not owning the lowest rated subsectors.

Our **Broad Market Strategy ("BM")** – a 67%-33% blend of IG-HY bonds – produced a gross total return of 5.61% for the quarter ended March 31 compared to 5.86% for the Bloomberg Barclays blended Index. It is important to note that our BM strategy achieves its BBB average credit quality via a barbell strategy of higher and lower rated securities. Our underperformance for the quarter was largely driven by our overweight position in the A-rated cohort, which underperformed the Index as a whole. The 12-month return for the CAM Broad Market strategy was 5.81% compared to blended index return 5.30%. Our outperformance for the 12-month period relative to the Weighted Index is due to the outperformance of the lowest rated investment grade and high yield cohorts.

The CAM **Short Duration Strategy** ("**SD"**) blends equal weights of IG and HY short duration bonds. The strategy's gross total return in the quarter ended March 31 was 3.61% while its Index, a similar blend of the intermediate components of Bloomberg Barclays IG and HY corporates, returned 4.75%. At March 31, the 12-month return was 4.71% compared to the blended Index return of 5.18%. The strategy targets a duration of 3 and underperformed due to the relative outperformance of the longer component of the Index.

The **Short Duration Investment Grade Strategy** (**SD-IG**) outperformed in the quarter ended March 31, 2019 compared to its Index, the Bloomberg Barclays U.S. Credit 1-5 Index. SD-IG returned 2.66% compared with the Index's 2.39%. Over a 12-month period, SD-IG delivered 4.43% versus an Index return of 4.27%. The outperformance for both periods is due to our underweight position in the "BBB" credit subsector relative to the Index.

Bloomberg Barclays Bond Indices Returns vs. CAM Gross (annualized %)

Periods ended 03/31/2019	10-yrs	20-yrs
U.S. Aggregate	**3.76**	**4.73**
U.S. Corporate	**6.66**	**5.54**
CAM Investment Grade Strategy	**6.28**	**5.59**

Better Asset Allocation Might Result from More Exacting Analysis

The chart to the right shows that BB rated bonds returned approximately 45% of S&P 500 stocks for the 5-year period, 60% over 10 years, and exceeded the returns of the S&P 500 over the last 20-years. Lower rated CCC bonds have underperformed the S&P 500 for the 5-year period, while the lowest rated (CC & D) have produced negative returns. Both BB and B rated bonds outperformed the Bloomberg Barclays US Aggregate Index for all periods.

The chart also indicates that CCC rated securities underperformed BB rated and B rated bonds for the 20-year period. For the shorter 10-year period, the lower credit CCC cohort outperformed. Not shown in the table is the pronounced and extreme volatility that has characterized the CCC sector. For example, during 2008, when the High Yield Index was down 26%, CCC rated bonds were down 44%, and during 2009, the Index was up 58% while CCC bonds were up 91%. In each calendar year since 1997, CCC rated bonds ranked either best or worst in Credit Sights Annual Excess Return Rankings for US corporate credit tiers, a trend that continued in 4Q18. The CCC longer term results were achieved with significantly more volatility than the Index.

Finally, not only have BB rated bonds outperformed the S&P 500 for the 20-year period, but they have done so with about half the volatility of that Index (Ibbotson), suggesting that better credit quality high yield bonds deserve consideration as a core holding in an investor's portfolio allocation.

Total Return of High-Yield Bonds by Credit Quality

(periods ended 03/31/2019) Source: Credit Suisse First Boston

(annualized %)

High-Yield Bond Sectors	5-years	10-years	20-years
BB-rated bonds	**4.97**	**9.05**	**7.65**
B-rated bonds	**3.74**	**9.73**	**6.52**
CCC-rated bonds	**4.58**	**15.18**	**6.35**
CC & D-rated bonds	**-12.40**	**3.72**	**-5.23**

Performance of Other Asset Classes

(periods ended 03/31/2019) Source: Bloomberg Barclays & Lipper

	5-years	10-years	20-years
S & P 500 Stocks	**10.91**	**15.86**	**6.02**
Bloomberg Barclays U.S. Aggregate	**2.74**	**3.76**	**4.73**

Yield Spreads Over U.S. Treasuries:

Absolute spreads for all credit subsectors have tightened versus long-term averages but are still well above the decade lows. The March 31 spread levels (indicated at the right) enhance the value of corporate bonds versus U.S. Treasuries. The 10-year U.S. Treasury ended Q1 at 2.41% compared to recent year-ends: 2.69% (2018) and 2.41% (2017). With the U.S. Treasury yield curve flatter then it was a year ago, and indications that inflation remains muted, we have seen stronger demand for bonds than in Q4 2018.

*1981-2018 Average
**1987-2018 Average

Credit Rating	Average Spread	03/31/2019	12/31/2018	12/31/2017	12/31/2016	Tightest This Decade
A*	1.20%	0.91%	1.18%	0.73%	1.01%	0.69%
BBB*	1.87%	1.53%	1.97%	1.24%	1.60%	1.12%
BB**	3.52%	2.35%	3.54%	2.11%	2.70%	1.30%
B**	5.30%	3.87%	5.31%	3.43%	3.82%	2.28%
CCC**	10.14%	9.02%	9.89%	6.15%	8.07%	3.78%

Annual Excess Return Rankings - USD Corporate Credit Ratings Tiers

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
US CCC 13.6%	US AA -1.0%	US CCC 8.4%	US AAA -1.4%	US A 3.5%	US AA 0.5%	US CCC 58.5%	US CCC 13.2%	US B 1.7%	US CCC 15.2%	US AAA -2.3%	US AAA -9.3%
US B 6.3%	US A -1.4%	US B 6.7%	US AA -2.4%	US BBB 3.4%	US AAA 0.1%	High Yield 25.6%	High Yield 7.9%	US BB 0.8%	High Yield 8.3%	US AA -4.4%	US AA -14.0%
High Yield 5.8%	US AAA -1.5%	High Yield 6.1%	US A -4.2%	High Grade 3.4%	US A -0.1%	US B 23.5%	US B 7.5%	High Yield 0.6%	US B 7.8%	High Grade -5.0%	High Grade -21.3%
US BB 3.9%	High Grade -2.2%	US BB 4.4%	High Grade -4.7%	US BB 3.2%	High Grade -2.5%	US BB 16.9%	US BB 6.0%	US AA 0.1%	US BB 6.5%	US BBB -5.4%	US A -22.4%
US BBB 0.3%	US BB -3.1%	US BBB 2.7%	US BBB -6.7%	US AA 3.0%	US BBB -5.9%	US BBB 9.1%	US BBB 2.3%	US AAA 0.1%	US BBB 1.6%	US A -5.5%	US BBB -25.6%
US AA 0.0%	US BBB -4.2%	High Grade 1.4%	US BB -10.6%	US AAA 2.2%	US B -10.6%	High Grade 5.9%	High Grade 1.7%	US A -0.2%	High Grade 1.3%	US B -6.4%	US BB -31.5%
High Grade -0.3%	High Yield -5.0%	US A 0.8%	High Yield -15.3%	High Yield -3.3%	High Yield -13.4%	US A 3.6%	US A 1.4%	High Grade -0.8%	US A 1.2%	US BB -7.3%	High Yield -38.1%
US AAA -0.3%	US B -5.6%	US AA 0.4%	US B -17.2%	US B -6.9%	US BB -15.0%	US AAA 2.6%	US AAA 1.1%	US BBB -2.0%	US AAA 1.1%	High Yield -7.3%	US B -39.6%
US A -0.8%	US CCC -9.5%	US AAA 0.1%	US CCC -21.7%	US CCC -8.6%	US CCC -16.2%	US AA 2.0%	US AA 1.0%	US CCC -2.4%	US AA 1.0%	US CCC -9.2%	US CCC -48.7%

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
US CCC 97.4%	US CCC 13.2%	US AAA -2.2%	US CCC 18.7%	US CCC 14.4%	US BB 0.7%	US AAA 0.0%	US CCC 35.2%	US CCC 9.6%	US AA -1.2%	US CCC 6.4%
High Yield 58.7%	High Yield 9.8%	US BB -2.5%	High Yield 13.6%	High Yield 9.5%	US A 0.0%	US AA 0.0%	High Yield 16.2%	High Yield 6.1%	US AAA -1.7%	High Yield 5.8%
US B 48.7%	US B 9.0%	US B -2.6%	US B 13.2%	US B 9.2%	High Grade 0.0%	US A -0.3%	US B 15.7%	US BB 5.6%	US A -2.6%	US B 5.7%
US BB 46.8%	US BB 8.9%	High Yield -3.3%	US BB 12.2%	US BB 7.8%	US AA -0.1%	High Grade -1.6%	US BB 11.9%	US B 5.4%	High Grade -2.8%	US BB 5.7%
US BBB 35.0%	US BBB 4.0%	US AA -3.6%	US BBB 9.4%	US BBB 3.3%	US BBB -0.1%	US BB -2.4%	US BBB 6.9%	US BBB 4.6%	US B -3.0%	US BBB 3.1%
High Grade 23.5%	High Grade 2.8%	High Grade -4.1%	High Grade 7.9%	High Grade 2.8%	US AAA -0.4%	US BBB -3.2%	High Grade 4.7%	High Grade 3.8%	US BBB -3.4%	High Grade 2.6%
US A 20.0%	US A 2.3%	US BBB -4.3%	US A 7.5%	US A 2.2%	High Yield -1.3%	High Yield -5.9%	US A 3.2%	US AAA 3.3%	High Yield -3.7%	US A 2.2%
US AA 12.4%	US AA 1.5%	US A -4.3%	US AA 5.3%	US AA 1.9%	US B -2.0%	US B -6.3%	US AA 2.4%	US A 3.1%	US BB -3.8%	US AAA 1.7%
US AAA 4.1%	US AAA 1.3%	US CCC -7.6%	US AAA 2.1%	US AAA 1.0%	US CCC -5.2%	US CCC -16.2%	US AAA 2.3%	US AA 2.4%	US CCC -5.8%	US AA 1.5%

Source: CreditSights, ICE BofAML Indexes data through 03/31/2019
(Excess return = the total return of the asset class minus the total return of a duration matched basket of government securities. Essentially the excess return metrics remove the yield curve piece of the return picture. In its basic form, it is mainly a function of coupon differentials and spread changes).

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10-year bond yielding 2.59%. The flat curve is leading some investors into short duration and short maturity investments.

But the corporate bond markets still offer a much steeper yield curve, rewarding investors in longer maturities with higher yields. In fact, extending maturities in the Corporate Bond Market offers investors significantly higher yields. A-rated corporates offer a yield pickup of 80 basis points moving from 6-month to 10-year maturities. The yield pickup increases as we move lower in credit quality. For the same extension, BBB-rated corporates deliver a 115 basis point pickup; BB-rated corporates deliver a 222 basis point pickup and B-rated bonds deliver a 282 basis point pickup (Source: *Bloomberg*). So a $1,000,000 portfolio of BB rated 10-year bonds would provide an additional $22,200 in interest income each year over a 6-month maturity BB-rated portfolio at the rates shown above.

The pickup is more pronounced if the investor moves from a 6-month A-rated bond yielding 2.69% to a BB-rated 10-year bond yielding 5.62%. The interest income more than doubles.

Since interest rate forecasting is a form of market timing, it should be understood that it is as difficult as trying to time the stock market for investment actions. As such, many professionals argue for a core allocation to major market sectors (e.g. equities and fixed income) that changes little from year to year.

The opportunity cost of being wrong on fixed income/bond investments is significant, given the dynamics of interest compounding. After the market crash in late 2008, the investor who went to cash suffered mounting opportunity cost as the years elapse (see the return quilt on page 1). Low interest rates in the ensuing 7-years led some to remain in very short duration (or maturity) securities or cash. Choosing cash over high grade and high yield bonds was expensive, even for just a few years. Over 4-years, the cumulative total return on cash was 0.40% ($4,006 for a $1,000,000 investment), while the high grade bond total return was 55.69% ($556,856 for a $1,000,000 investment) and the high yield bond total return was 118.97% ($1,189,734 for a $1,000,000 investment).

Please note the high grade index in the return quilt is the Bank of America Merrill Lynch Investment Grade U.S. Corporate Bond Index with an average maturity of 10.46 years and a modified duration of 7.09. The high yield index in the return quilt is the Bank of America Merrill Lynch Cash Pay High Yield Bond Index with

(Continued on page 4)

(Continued from page 3)

an average maturity of 5.79 years and an modified duration of 3.71 (source: Bloomberg 3/31/19)

When the bond market did suffer from rising rates in 2013 (the 5th year in our example above), the investor in high grade bonds gave back 1.5%, reducing his cumulative total return by $23,352 to $533,504. This compares to the investment in cash, which returned 0% in 2013, holding the cumulative total return at $4,006. The much higher compounding of interest in the longer maturity high grade investment provided a comfortable "cushion" for the impact of the rise in interest rates.

Also of interest is the completely different behavior of the high yield market from that of the high grade market. The difference in total returns for 2013, a period of rising interest rates, was a eye-catching 8.9% in return. This points out the benefit of diversifying a bond portfolio across the credit quality spectrum to include both high yield and high grade bonds.

More recent performance is similar. Cash was the top performer in 2018 providing a return of 1.8% compared to the high grade corporate return of –2.2% and the high yield bond return of –2.3%. A group of investors seeking "protection" from interest rate increases remained in cash in 2019's first quarter and ended up underperforming for the entire period of 2018 and the first quarter of 2019 when the cash total return was 0.6%, while high grade corporates delivered 5.0% and high yield bonds delivered 7.4%. So, over the 15-month period from 1/1/2018, cash provided investors with a total return of 2.41%, high grade corporates generated 2.69% and high yield corporates generated 4.93%.

Sharpe Ratios (risk & reward relative value) Inception-Q1 2019

CAM Investment Grade Strategy 0.43
Bloomberg Barclays U.S. Corp Bonds 0.40

CAM High Yield Strategy 0.54
Bloomberg Barclays High Yield Corp Bonds 0.51

CAM Short Duration 0.52
Bloomberg Barclays Weighted Benchmark
(1/2 Interm. HY & 1/2 U.S. Interm. Credit 1-5) 0.65

CAM Short Duration IG Strategy 1.26
Bloomberg Barclays U.S. Interm. Credit 1-5 Yr 1.36

CAM Broad Market Strategy 0.79
Bloomberg Barclays Weighted Benchmark
(2/3 Corporate and 1/3 High Yield) 0.79

An important objective for all Cincinnati Asset Management investment strategies is to deliver superior risk-weighted returns. A quantitative indication of our success is the Sharpe Ratio that calculates total return per unit of risk. The data on the left indicate we have been largely successful. Sharpe Ratios of the Investment Grade and High Yield Strategies exceeded their respective benchmarks by approximately 8% and 6%, respectively. The Short Duration Strategy's Sharpe Ratio trailed its benchmark's ratio by 20%, and Short Duration Investment Grade trailed its benchmark by 7%. The Broad Market Strategy produced a Sharpe Ratio equal to the benchmark's ratio.

To properly cover the recent past, we'll consider the period from 2015, a down year for both high yield and high grade bonds, through the first quarter of 2019. The results are in the same order. Cash is the lowest of the three, delivering a total return of just 3.44%, while high grade bonds delivered a total return of 15.23% and high yield bonds delivered a total return of 26.44%.

We believe the historical experience supports the thesis that an intermediate maturity (i.e. about 7 to 10-years) bond portfolio with a portion dedicated to high yield bonds provides the investor with the better return than cash or very short maturity portfolios or pure high grade bond portfolios. Attempting to "time" interest rate moves has usually resulted in significant underperformance.

Macro Considerations and Outlook

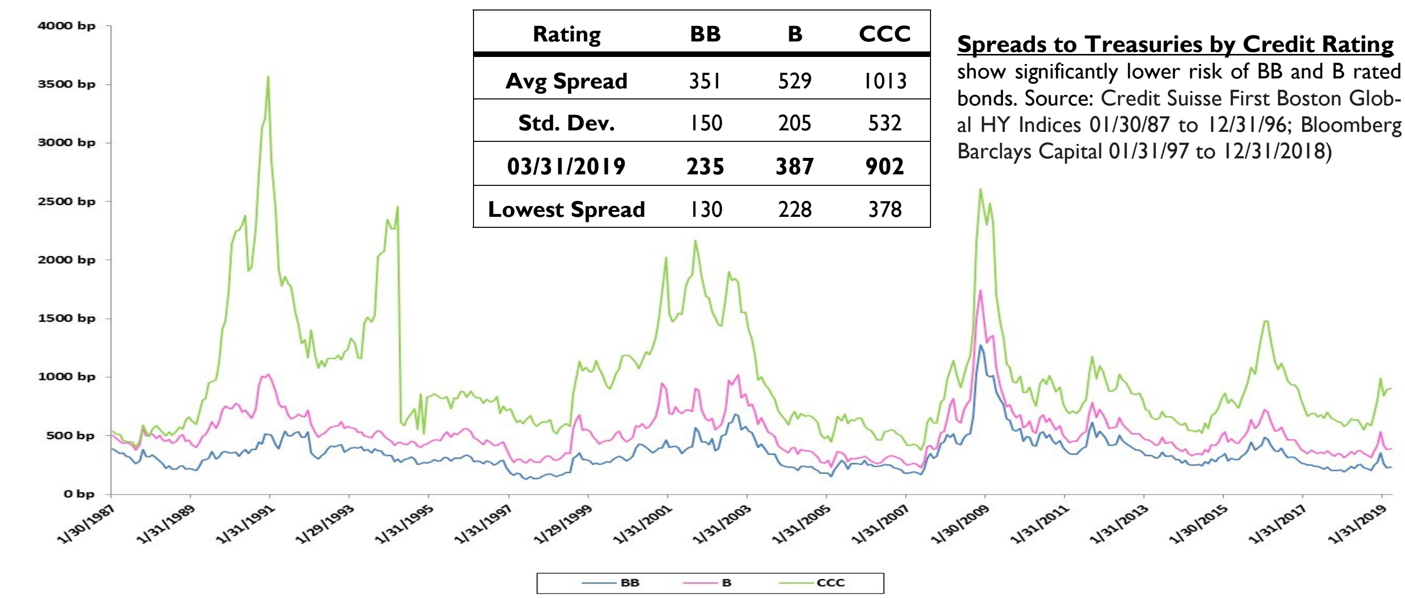
U.S consumer spending lagged projections by economists and inflation eased in the most recent report by the Commerce Department. This follows a soft 4th quarter growth rate of just 2.5% and January's light 0.7% increase in spending. For inflation, the Fed's preferred price gauge, tied to consumption rose a modest 1.4% from a year earlier in January (source: *Bloomberg* 4/1/19).

While oil prices have risen in response to coordinated Saudi and Russian efforts to reign in production and Trump's planned total ban on Iranian oil, natural gas prices have fallen. This is important to consumers and industries, since natural gas accounts for about 35% of electric generating fuel across the USA.

The International Monetary Fund cut its outlook for global economic expansion to the least since the 2009 financial crisis. Growth is now forecasted to be 3.3%, a downward revision from 3.5% in its January forecast. The forecast for 2020 is growth of 3.6%. Furthermore, the IMF does not anticipate a recession in the near term.

Most economists see modest growth, and low inflation. The health of the US economy is reflected in the unemployment report where jobless claims recently fell to a 50-year low (source: *Wall Street Journal* 4/18/19).

Rating	BB	B	CCC
Avg Spread	351	529	1013
Std. Dev.	150	205	532
03/31/2019	**235**	**387**	**902**
Lowest Spread	130	228	378



Spreads to Treasuries by Credit Rating show significantly lower risk of BB and B rated bonds. Source: Credit Suisse First Boston Global HY Indices 01/30/87 to 12/31/96; Bloomberg Barclays Capital 01/31/97 to 12/31/2018)