Third Quarter 2019
Bond Market Review
and Outlook

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

The Federal Reserve "will act as appropriate to sustain growth, a strong labor market and a return of inflation to our symmetric 2% objective."

Federal Reserve Vice Chairman Richard Clarida as reported in *The Wall Street Journal* 10/18/19

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 28.5%
Mid Cap 32.2%	S&P 500 28.6%	EM Equity 66.5%	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 21.6%
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%	S&P 500 20.6%
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 17.9%
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%	Prefs 15.4%
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%	Russell 2000 14.2%
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%	Conv 13.6%
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%	High Grade 12.9%
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%	EM Sov 11.8%
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%	High Yield 11.5%
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 10.7%
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%	US Gov't 7.9%
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%	Munis 7.1%
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%	Loans 6.7%
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%	EM Equity 6.1%
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%	Mtges 5.8%
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 1.8%

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 Sep 30, 2019

As we move into the 4th quarter of 2019, talk of negative interest rates continues. The recent U.S. Government's auction of 30-year bonds on Thursday, October 10 drew a record low yield of 2.17% (source: *Bloomberg* 10/10/19). This is considered a strong sign of declining investor expectations for economic growth and inflation. The trend is global with the U.K. and Germany also posting record low yields for their respective 30-year bonds (source: *Bloomberg* 10/10/19).

Recently, former Federal Reserve Chairman, Alan Greenspan observed, "It will not be long before the spread of negative interest rates reaches the U.S." (source: CNBC 9/4/19). Currently, there is more than $15 trillion in debt trading at negative interest rates (source: *Wall Street Journal* 10/17/19). Negative yielding bonds include the sovereign bonds in Belgium, France, Germany and Japan. Many central banks are signaling easing of their interest rates in response to economic slow downs in their countries. In addition to the U.S., Europe and Japan, a group of 37 emerging economies, including China, Brazil, Mexico and Saudi Arabia Mexico, have been lowering their interest rates. In September there were 11

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Yields* on 09/30/2019	Yield*
CAM Broad Market (corporate core plus) Strategy (7.0 year maturity; 5.3 duration)	3.18%
CAM Investment Grade (100% corporate bonds) Strategy (7.2 year maturity; 6.0 duration)	2.62%
CAM High-Yield Strategy (only BB & B rated purchased) (6.4 year maturity; 3.6 duration)	4.41%
CAM Short Duration Strategy (3.4 year maturity; 2.3 duration; 50% IG & 50% HY)	3.13%
CAM Short Duration Investment Grade Strategy (2.8 year maturity; 2.6 duration)	2.15%
Tax Equivalent Muni GO Bond (7 year, 1.51%) Bloomberg Barclays Institutional Index (Yield to right is after 40% tax equivalency and 3-point retail price markup for small buys under $1 M)	1.66%
U.S. Treasury** (10 year maturity)	1.67%
U.S. Treasury** (5 year maturity)	1.55%
U.S. Treasury** (2 year maturity)	1.62%

* 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.
- All 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. **The indices are unmanaged and do not take into account fees, expenses, and transaction costs.**	Total Return (%)	Annualized Returns (%)			
	3Q '19	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	2.20	11.17	4.03	3.67	5.30
CAM High Yield "Upper Tier" Strategy—Net only purchase BB and B; no purchases of CCC & lower	2.21	9.39	5.19	2.77	5.40
Bloomberg Barclays US Corporate High Yield Index	1.33	6.36	6.07	5.38	7.94
CAM Investment Grade Strategy—Net 100% corporate bonds	2.22	12.22	3.51	4.09	5.29
Bloomberg Barclays US Corporate Index	3.05	12.99	4.50	4.72	5.56
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	1.39	6.38	3.43	1.69	3.70
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	1.13	6.72	2.27	2.55	3.94

Relative Performance Review 09/30/2019

CAM's **Investment Grade Strategy** ("**IG**") produced a gross total return of 2.28% in the quarter ended September 30, 2019, compared to 3.05% for the Bloomberg Barclays U.S. Corporate Index. IG underperformed the Index in Q3 in large part due to CAM's maturity profile. CAM always positions a majority of the portfolio within intermediate maturities and during the third quarter on average, 77.0% of the portfolio had a modified duration between 5-10 years while 27.2% of the Index fell within this range of duration. The net effect of this maturity profile served as -86 basis point contribution to excess return. The YTD return for the CAM IG strategy was 11.69% compared to the Index return of 13.20%. The YTD performance also trailed the Index as a function of CAM's intermediate maturity profile, but additionally due to the general outperformance of BBB-rated corporate bonds, to which CAM targets a 30% limitation and is structurally underweight approximately 20% versus the Index.

The **High Yield Strategy** ("**HY**") delivered a gross total return of 2.30% in Q3 while the Bloomberg Barclays High Yield Index returned 1.33%. The HY YTD return was 13.61% while the Bloomberg Barclays High Yield Index returned 11.41%. HY outperformed through our security selection and allocation within the Energy sector. Specifically, CAM had zero exposure to both Independent Energy and Oil Field Services industries, which both posted negative total returns for the quarter. Also supporting our outperformance was not having any exposure to "CCC" and lower credit subsectors of the Index, which underperformed 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 led in the YTD period for the same reasons.

Our **Broad Market Strategy ("BM")** – a 67%-33% blend of IG-HY bonds – produced a gross total return of 2.27% for the quarter ended September 30, 2019 compared to 2.48% 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 underweight position in the BBB-cohort produced a -19 basis point contribution to excess return for the quarter. The YTD return for the CAM Broad Market strategy was 12.27% compared to blended Index return 12.62%. Our modest underperformance for this period relative to the Weighted Index is due to the underweight position in the BBB-cohort, which outperformed the Index as a whole. Also, worth consideration is that the aforementioned attribution factors impacting the High Yield and Investment Grade strategies above also impact the Broad Market strategy. These effects have had a neutralizing effect on one another in the QTD and YTD periods, one of the benefits of the additional diversification of this strategy.

The CAM **Short Duration Strategy** ("**SD**") blends equal weights of IG and HY short duration bonds with a target duration of 3 years. The strategy's gross total return in the quarter ended September 30, 2019 was 1.48% while its Index, a similar blend of the intermediate components of Bloomberg Barclays IG and HY corporates, returned 1.22%. Of note, CAM's security selection within the Automotive, Midstream, and Wirelines industry groups produced 20 basis points of contribution to excess return. The YTD return was 7.25% compared to the blended Index return of 8.53%. CAM's duration profile is shorter than the blended index, and longer paper (5+ years) dramatically outperformed during the period. Our underweight of this duration bucket produced -44 basis points of excess return versus the index during the YTD period.

The **Short Duration Investment Grade Strategy ("SD-IG")** delivered a gross total return of 1.19% for Q3 while the Bloomberg Barclays U.S. Corporate 1-5 Index returned 1.17%. Lower quality credit outperformed during the period. CAM's positioning within BBB-rated securities resulted in a +6 basis point contribution to excess return despite our underweight of that ratings bucket, highlighting our effective security selection. Conversely, high quality securities (AAA) underperformed during the quarter and our positioning within that ratings bucket generated a -2 basis point contribution to excess return. Over the YTD period, SD-IG delivered 5.97% versus an Index return of 5.98%. The YTD performance approximated the benchmark despite a modest cash drag in a period of positive total returns.

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

Periods ended 09/30/2019	10-yrs	20-yrs
U.S. Aggregate	3.75	5.01
U.S. Corporate	5.56	6.00
CAM Investment Grade Strategy	5.55	5.96

Better Asset Allocation Might Result from More Exacting Analysis

The chart to the right shows that BB rated bonds returned approximately 50% 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 and 10-year periods, 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 2018. 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 09/30/2019) Source: Credit Suisse First Boston

(annualized %)

High-Yield Bond Sectors	5-years	10-years	20-years
BB-rated bonds	5.76	7.57	7.91
B-rated bonds	4.49	7.41	6.76
CCC-rated bonds	5.17	8.76	6.39
CC & D-rated bonds	-10.79	-4.58	-5.11

Performance of Other Asset Classes

(periods ended 09/30/2019) Source: Bloomberg Barclays & Lipper

	5-years	10-years	20-years
S & P 500 Stocks	10.84	13.19	6.32
Bloomberg Barclays U.S. Aggregate	3.38	3.75	5.01

Absolute spreads for all credit subsectors have tightened versus long-term averages but are still well above the decade lows. The September 30 spread levels (indicated at the right) enhance the value of corporate bonds versus U.S. Treasuries. The 10-year U.S. Treasury ended Q3 at 1.67% 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 stable, we have seen strong demand for corporate bonds throughout 2019.

*1981-2018 Average
**1987-2018 Average

Credit Rating	Average Spread	09/30/2019	12/31/2018	12/31/2017	12/31/2016	Tightest This Decade
A*	1.20%	0.89%	1.18%	0.73%	1.01%	0.69%
BBB*	1.87%	1.47%	1.97%	1.24%	1.60%	1.12%
BB**	3.52%	2.15%	3.54%	2.11%	2.70%	1.30%
B**	5.30%	3.70%	5.31%	3.43%	3.82%	2.28%
CCC**	10.14%	9.47%	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 BB 7.5%
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 6.3%
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 6.3%
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 BBB 5.0%
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%	High Grade 4.0%
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%	US A 3.1%
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 AAA 2.1%
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 AA 2.1%
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 CCC 1.4%

Source: CreditSights, ICE BofAML Indexes data through 09/30/2019
(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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countries that cut rates, following 14 that cut rates in August. September was the eighth straight month of net cuts following the rate tightening cycle that abruptly ended at the start of the year (source: *Reuters Business News* 10/1/19).

Greenspan's comments followed those of New York Federal Reserve president, John William's comment calling low inflation the "problem of this era" (source: CNBC 9/4/19.

Since the beginning of 2016 more than $3 trillion of bonds have been sold with a negative yield according to Barclay's data (source: *Wall Street Journal* 8/21/19). The vast majority were bonds sold by central banks. However, it also included $11 billion of corporate bonds from companies including French pharmaceutical company Sanofi and Philip Morris.

Why do investors purchase negative yielding bonds? Primarily it is because the investor expects to profit from the capital appreciation generated from yields falling even further and as a hedge against a potential deflationary period.

Current and expected continuing low inflation in Europe led the ECB to restart their quantitative easing program in addition to cutting interest rates. In September the ECB announced a cut in its interest rate to -0.5% and the purchase of €20 billion ($22 billion) a month of Eurozone debt (source: *Wall Street Journal* 9/12/19). The downward trend in inflation expectations in the U.S. can be seen in the chart on page 4.

However, the U.S. economy is on solid footing with annualized 2nd quarter GDP growth of 2%, albeit a slow down from the 3.1% annualized GDP growth in the first quarter (source: Bureau of Labor Statistics). The Conference Board is forecasting GDP growth of 1.9% in both the 3rd and 4th quarters for an annual rate of 2.3% for 2019 and 2% in 2020. With the lowest unemployment rate in 50 years, the consumer is largely responsible for the positive, constructive outlook.

(Continued on page 4)

(Continued from page 3)

However, the political uncertainties facing investors are quite extensive and are causing businesses to moderate spending and investors to lean toward a more conservative strategy. The list seems to keep growing: Iran's increasingly hostile attitude and recent attacks on Saudi oil facilities, the U.S.-China trade war, Brexit, the U.S.-Eurozone trade negotiations, the unending impeachment proceedings in the US and social unrest in Hong Kong.

The canary in the coal mine may well be the financial stress hitting low-rated companies in the U.S. The CCC rated bond index has underperformed the broader index this year with a number of companies filing bankruptcies or seeking restructuring deals to ease their debt burden.

Numerous industries are facing difficulties. Opioid lawsuits, generic drug price collusion allegations and proposed bills that would limit "surprise" medical bills have shaken parts of the healthcare industry. Retailers continue to suffer the loss of business to the internet. The energy sector is facing challenges due to stubborn low commodity prices (both oil and natural gas).

Another possible sign of developing economic weakness is the number of loans downgraded by S&P has outpaced upgrades over the past three months by the largest amount in over a decade (source: *Wall Street Journal* 10/22/19).

However, most continue to feel the economy will be in a slow growth mode through 2020. But in light of the tenuous condition facing some industries and more highly leveraged companies, credit selection and industry exposure are keys to garnering decent returns.

The investment team at CAM is always available to discuss your portfolio and our economic outlook at your pleasure. We believe transparency and open and regular dialogue are very important elements to successful long term investing.

Sharpe Ratios (risk & reward relative value) Inception-Q3 2019

CAM Investment Grade Strategy 0.46
Bloomberg Barclays U.S. Corp Bonds 0.44

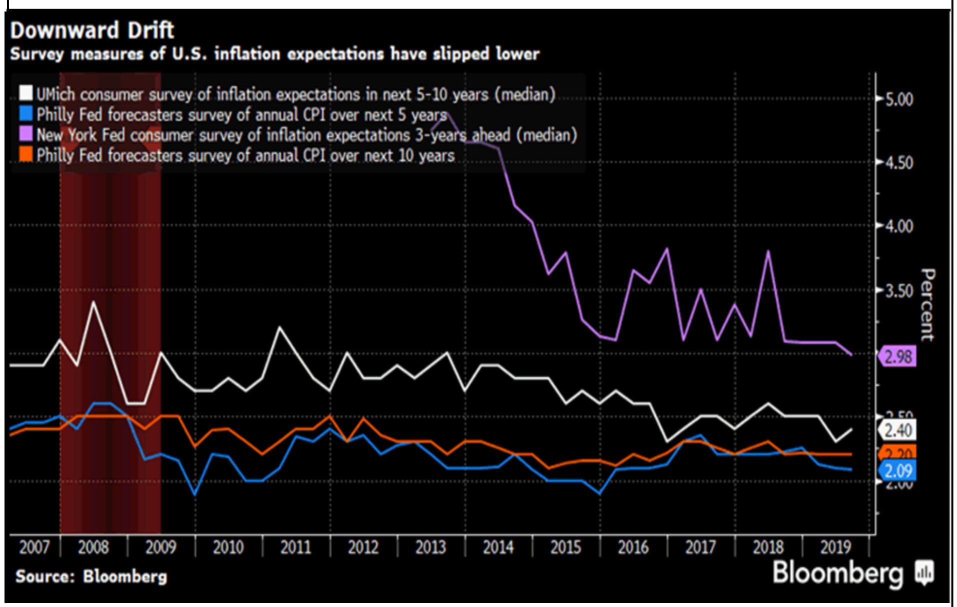
CAM High Yield Strategy 0.56
Bloomberg Barclays High Yield Corp Bonds 0.52

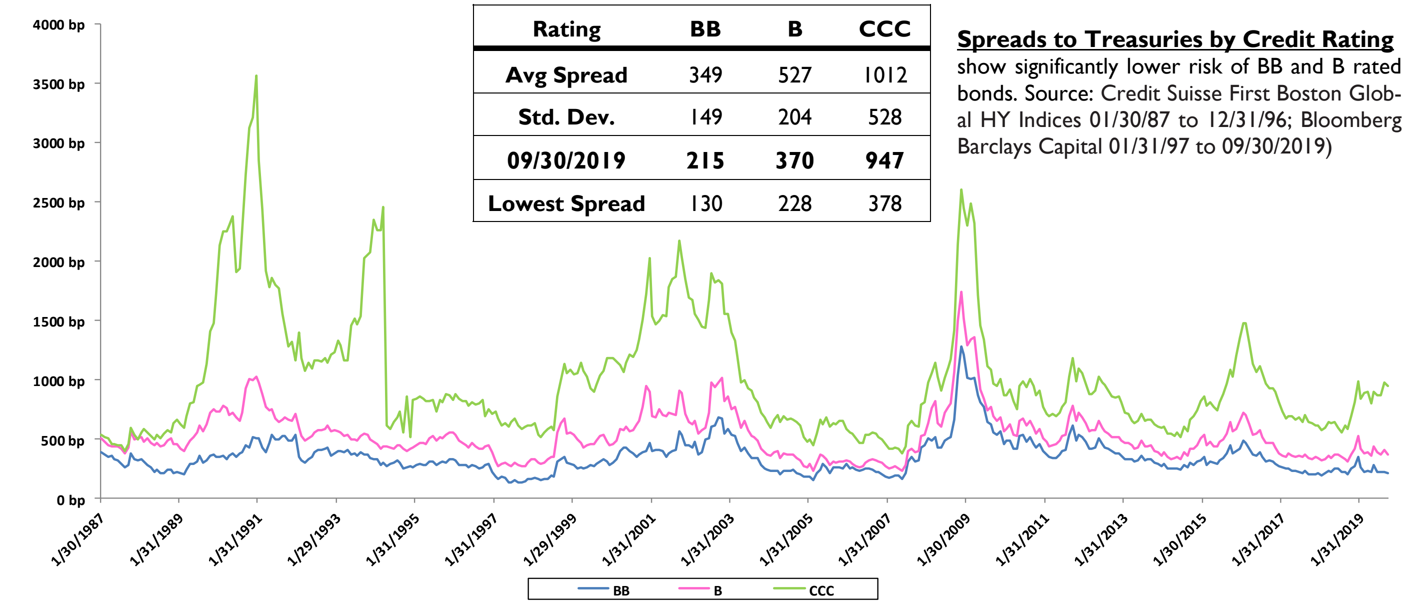
CAM Short Duration 0.54
Bloomberg Barclays Weighted Benchmark
(1/2 Interm. HY & 1/2 U.S. Corporate 1-5) 0.66

CAM Short Duration IG Strategy 1.28
Bloomberg Barclays U.S. Corporate 1-5 Yr 1.34

CAM Broad Market Strategy 0.83
Bloomberg Barclays Weighted Benchmark
(2/3 Corporate and 1/3 High Yield) 0.82

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 5% and 8%, respectively. The Short Duration Strategy's Sharpe Ratio trailed its benchmark's ratio by 19%, and Short Duration Investment Grade trailed its benchmark by 5%. The Broad Market Strategy produced a Sharpe Ratio approximately equal to the benchmark's ratio.





Rating	BB	B	CCC
Avg Spread	349	527	1012
Std. Dev.	149	204	528
09/30/2019	**215**	**370**	**947**
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 09/30/2019)