Fourth Quarter 2020 Bond Market Review and Outlook

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

"The restrictions imposed to combat the third Covid wave clearly have done great damage, but it's not obvious that the incremental hit is still increasing" Ian Shepherdson of Pantheon Macroeconomics 1/14/21

Annual Relative Total Return Ranking - USD Multi-Asset Class

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
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%
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%
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%
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%
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%
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 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%
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%
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%
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%
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%
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%
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%
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%
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%
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%
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%

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
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%	CCMP 36.7%	Conv 55.7%
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%	S&P 500 31.5%	CCMP 45.1%
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%	REITs 28.7%	Russell 2000 19.9%
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 26.2%	EM Equity 18.5%
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%	Russell 2000 25.5%	S&P 500 18.4%
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 11.8%	Russell 2000 14.6%	Loans 0.6%	Conv 23.1%	Mid Cap 13.6%
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 18.8%	High Grade 9.8%
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 17.7%	US Gov't 8.2%
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 14.4%	EM Corp 7.5%
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 14.3%	Prefs 6.9%
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%	High Grade 14.2%	High Yield 6.2%
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%	EM Corp 13.0%	Munis 5.3%
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 8.7%	EM Sov 4.8%
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 7.7%	Mtges 4.1%
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%	US Gov't 7.0%	Loans 3.5%
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 6.5%	Cash 0.5%
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 2.2%	REITs -5.1%

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 Dec 31, 2020

The Federal Reserve's Vice Chairman, Richard Clarida stated that "the development of several effective vaccines indicates to me that the prospects for the economy in 2021 and beyond have brightened and the downside risk to the outlook has diminished (source: *Bloomberg news* 1/8/21). He did caution that it would take "some time" for economic activity and employment to reach the peak level of last February.

The economy weakened in December with nonfarm payrolls decreasing by 140,000, its first decline in eight months (source: Department of Labor 1/8/21), while the unemployment rate held at 6.7%, ending a string of seven consecutive declines.

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Yields* on 12/31/2020	**Yield***
CAM Broad Market (corporate core plus) Strategy (7.4 year maturity; 5.6 duration)	**2.23%**
CAM Investment Grade (100% corporate bonds) Strategy (7.3 year maturity; 6.2 duration)	**1.52%**
CAM High-Yield Strategy (only BA & B rated purchased) (7.5 year maturity; 4.2 duration)	**3.77%**
CAM Short Duration Strategy (3.7 year maturity; 2.6 duration; 50% IG & 50% HY)	**1.91%**
CAM Short Duration Investment Grade Strategy (3.5 year maturity; 3.1 duration)	**0.74%**
U.S. Treasury** (10 year maturity)	**0.92%**
U.S. Treasury** (5 year maturity)	**0.36%**
U.S. Treasury** (2 year maturity)	**0.12%**

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

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.

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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 (%)**			
	4Q '20	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	2.68	8.11	6.23	5.91	5.03
CAM High Yield "Upper Tier" Strategy—Net only purchase BB and B; no purchases of CCC & lower	4.71	7.18	6.16	6.76	4.73
Bloomberg Barclays US Corporate High Yield Index	6.45	7.11	6.23	8.59	6.80
CAM Investment Grade Strategy—Net 100% corporate bonds	1.80	8.48	6.27	5.52	5.17
Bloomberg Barclays US Corporate Index	3.05	9.89	7.06	6.74	5.63
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	2.79	6.35	4.92	4.82	3.47
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	1.17	5.40	4.08	3.35	3.55

Relative Performance Review 12/31/2020

CAM's **Investment Grade Strategy** (**"IG"**) produced a gross total return of 1.86% in the quarter ended December 31, 2020, compared to 3.05% for the Bloomberg Barclays U.S. Corporate Index. CAM always positions a majority of the portfolio within intermediate maturities. Longer dated securities (10+ years) outperformed the index during the period, and CAM's zero weighting in this duration bucket produced a -78 basis point contribution to excess return. The YTD return for the CAM IG strategy was 8.73% compared to the Index return of 9.89%. Similarly, CAM's zero weighting in the 10+ years duration band produced a -185 basis point contribution to excess return. However, our underweight in the 1-3 year duration band produced a +95 basis point contribution to excess return.

The **High Yield Strategy** (**"HY"**) delivered a gross total return of 4.78% in Q4 while the Bloomberg Barclays High Yield Index returned 6.45%. At 12/31/2020 the modified duration of CAM's portfolio was 4.2 while the modified duration of the index was 3.6. The net effect of CAM's maturity profile served as a -139 basis point detriment relative to the index during the quarter. The HY YTD return was 7.51% while the Bloomberg Barclays High Yield Index returned 7.11%. For the YTD period, CAM's zero-weight in the Oil Field Services industry group was the biggest contributor to excess return relative to the index at +93 basis points.

Our **Broad Market Strategy ("BM")** – a 67%-33% blend of IG-HY bonds – produced a gross total return of 2.75% for the quarter ended December 31, 2020 compared to 4.18% for the Bloomberg Barclays blended Index. It is important to note that our BM strategy achieves its Baa average credit quality via a barbell strategy of higher and lower rated securities. On average through the fourth quarter 49.9% of the portfolio was positioned in A-rated or better credit subsectors, while the Index's exposure was 33.5%. The net effect of this structural allocation accounted for 86 basis points of underperformance versus the Index. The YTD return for the CAM Broad Market strategy was 8.41% compared to blended Index return 9.02%. Most notably, our underperformance for the year is attributable to our maturity profile. CAM always positions a majority of the portfolio within intermediate maturities. Longer dated securities (10+ years) outperformed the index during the period, and CAM's significant underweighting in this duration bucket produced a -149 basis point detriment to excess return.

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 December 31, 2020 was 2.86% while the Index, a similar blend of the intermediate components of Bloomberg Barclays IG and HY corporates, returned 3.58%. CAM's duration profile is shorter than the blended index, and longer paper (5+ years) dramatically outperformed, producing a -35 basis point contribution to excess return during the period. The YTD gross total return was 6.63% compared to the blended Index return of 5.76%. Notably, our structural avoidance of Caa credit produced a 42 basis point contribution to excess return.

The **Short Duration Investment Grade Strategy ("SD-IG")** delivered a gross total return of 1.23% for Q4 while the Bloomberg Barclays U.S. Corporate 1-5 Index returned 1.14%. CAM's weighting and positioning within the Airline industry was the largest positive contributor to performance with a +18 basis point contribution to excess return during the quarter. Over the YTD period, SD-IG outperformed the Index, by delivering 5.66% gross total return versus an Index return of 5.41%. CAM's weighting and positioning within the Independent Energy industry was the largest single positive contribution to performance, which generated a +30 basis point contribution to excess return.

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

Periods ended 12/31/2020	**10-yrs**	**20-yrs**
U.S. Aggregate	**3.84**	**4.83**
U.S. Corporate	**5.63**	**6.10**
CAM Investment Grade Strategy	**5.43**	**5.98**

Better Asset Allocation Might Result from More Exacting Analysis

The chart to the right shows that BA rated bonds returned approximately 50% of S&P 500 stocks for the 5 and 10-year periods and exceeded the returns of the S&P 500 over the last 20-years. Lower rated CAA bonds have underperformed the S&P 500 for the 5-year and 10-year periods, while the lowest rated (CA & D) have produced negative returns for the 10-year and 20-year periods. BA rated bonds have outperformed the Bloomberg Barclays US Aggregate Index for all periods shown.

The chart also indicates that CAA rated securities outperformed B rated and BA rated bonds for all periods. Not shown in the table is the pronounced and extreme volatility that has characterized the CAA sector. For example, during 2008, when the High Yield Index was down 26%, CAA rated bonds were down 44%, and during 2009, the Index was up 58% while CAA bonds were up 91%. In each calendar year since 1997, CAA rated bonds ranked either best or worst in Credit Sights Annual Excess Return Rankings for US corporate credit tiers, a trend that was finally upset in 2019, although it returned in 2020.

Finally, not only have BA 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 12/31/2020) Source: Credit Suisse First Boston

(annualized %)

High-Yield Bond Sectors	**5-years**	**10-years**	**20-years**
BA-rated bonds	**7.78**	**6.86**	**7.94**
B-rated bonds	**7.51**	**6.30**	**7.31**
CAA-rated bonds	**12.54**	**7.09**	**8.33**
CA & D-rated bonds	**1.66**	**-8.55**	**-3.35**

Performance of Other Asset Classes

(periods ended 12/31/2020) Source: Bloomberg Barclays & Lipper

S & P 500 Stocks	**15.21**	**13.83**	**7.45**
Bloomberg Barclays U.S. Aggregate	**4.44**	**3.84**	**4.83**

The December 31 spread levels (indicated at the right) enhance the value of corporate bonds versus U.S. Treasuries. The 10-year U.S. Treasury ended 2020 at 0.93% compared to recent year-ends: 1.88% (2019) and 2.72% (2018).

As of 12/31/2020, absolute spreads for all credit subsectors except CAA are similar to, or wider than, those at 12/31/2019. In March, IG spreads spiked to levels that had only been seen once since the 1988 inception of the Bloomberg Barclays US Corporate Index. The credit markets have experienced a reversal of fortune since the dark days of late March, with both spreads and returns rebounding smartly from the levels seen earlier this year.

Credit Rating	20-Year Average Spread	12/31/20	09/30/20	12/31/19	12/31/18	12/31/17	Tightest This Decade
A	1.22%	0.73%	1.04%	0.70%	1.18%	0.73%	0.69%
BAA	1.92%	1.21%	1.73%	1.20%	1.97%	1.24%	1.12%
BA	3.80%	2.64%	3.82%	1.82%	3.54%	2.11%	1.30%
B	5.26%	3.79%	5.40%	3.24%	5.31%	3.43%	2.28%
CAA	9.50%	7.15%	10.40%	9.20%	9.89%	6.15%	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	2020
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 10.2%	US BB 2.7%
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%	US B 9.3%	High Yield 0.7%
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%	High Yield 9.2%	US AA 0.6%
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 8.1%	US A 0.6%
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 6.5%	High Grade 0.5%
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 5.2%	US BBB 0.5%
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 4.3%	US AAA 0.1%
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 CCC 4.2%	US B -1.5%
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 3.4%	US CCC -2.1%

Source: CreditSights, ICE BofAML Indexes data through 12/31/2020

(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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The job losses were heavily concentrated in the leisure and hospitality segment that suffered a 498,000 decline. The renewed restrictions and lockdowns imposed to blunt the surge in Covid-19 cases is considered the cause.

The duration of the weakness could be longer than some expect since one in six restaurants have closed permanently or long term according to a survey released Monday, 12/7/20 by the National Restaurant Association. Closed down facilities will take longer to reemploy workers, since, at best, new financing is typically needed and at the worst, new owners and operators must appear to reestablish venues.

Further evidence of economic weakness is found in the U.S. jobless claims reported 1/14/21. Initial claims rose by 181,000 to 965,000 in the week ended January 9 (source: *Bloomberg News* 1/14/21). The report showed large increases across many states. The scope and scale of the increase defied predictions of little change, with the median forecast of 789,000 (source: ibid).

In a similar vein, small business optimism fell to a seven month low in December, with nine out of ten subindexes declining (source: National Federation of Independent Business 1/12/21). Sales expectations dropped to minus 4%, the lowest since last May. Also, those with plans to add jobs and make capital expenditures fell. The NFIB chief economist noted that "business restrictions and consumer spending shifts are still firmly in place and will be until the spread of Covid-19 is largely curbed" (ibid).

The sluggish economy is reflected in the CPI measures released on

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Footnotes and disclosure

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January 13. The December core index, which excludes food and energy costs, increased just 1.6% from a year ago. Even the broader CPI advanced just 1.4% year over year (source: Department of Labor 1/13/21). Inflation remains well below the Federal Reserve's 2% target, representing a healthy environment for longer duration fixed income investors.

Most economists and the FED expect inflation to remain subdued this year. Furthermore, the FED policy makers have stated that they plan to hold interest rates near zero for the foreseeable future. Their ability to purchase bonds on the open market allows them to influence prices and yields on longer dated securities. However, officials have stated that they are agreeable to slowing the pace of Treasury security purchases later in 2021(source: *Bloomberg News* 1/13/21). This has lead to the current steepening of the yield curve with the 10-year Treasury yield rising as high as 1.18% last Tuesday. At the time of this writing on 1/14/21, strong demand has driven the yield back down to 1.09%.

Further indications of the continued low rate environment is evident in U.S. residential mortgage rates. Freddie Mac reported the average 30-year fixed loan fell to a new record low over the past 50-years of 2.65% (source: *Bloomberg News* 1/7/21).

The low rates have driven a housing boom. The most recent data from November showed existing home sales increased 26% from a year ago (source: *MarketWatch* 12/22/20). Existing home sales represent most of the market. Another sign of strength is the existing supply, which was at its lowest level on record since 1982 (source: *Fox Business* 12/22/20). Furthermore, the National Association of Homebuilders forecast new construction on single family homes could exceed one million homes in 2022 (source: *Forbes Advisor* 1/4/21). This compares to 903,200 new single family completions in 2019 and 818,000 in 2020 through November (source: U.S. Census Bureau, HUD 12/17/20). The Mortgage Bankers Association forecast single family housing starts of 1,134,000 in 2021, rising to 1,165,000 in 2022 and to 1,210,000 in 2023 (source: *Forbes Advisor* 1/4/21).

So, while Covid-19 will constrain some sectors of the economy over the next 6 months, others, like housing will flourish. As the Covid-vaccine is more widely administered, the second half of the year looks promising. Of course, the wild card is changes to the federal taxes and regulations enacted by the Biden administration.

For instance, Biden has endorsed the Protecting the Right to Organize Act (Pro Act) passed by the house last February. The *Wall Street Journal* feels passage would "impose union dominance in the workplace" by reversing right to work laws in 27 states. It also narrows the definition of an "independent contractor", which would drive millions of gig economy workers into union hands (source: *Wall Street Journal* 10/21/20).

Other policy proposals by Biden include increasing tax rates, restrictions on fracking in oil and gas exploration, renewable energy mandates to replace natural gas and coal, and a public option for health care. We'll have to see how these initiatives proceed, before we can estimate the impact.

CAM had a very successful 2020. We sincerely thank all of our clients and partners.

Sharpe Ratios (risk & reward relative value) Inception-Q4 2020

CAM Investment Grade Strategy 0.50
Bloomberg Barclays U.S. Corp Bonds 0.48

CAM High Yield Strategy 0.55
Bloomberg Barclays High Yield Corp Bonds 0.51

CAM Short Duration 0.55
Bloomberg Barclays Weighted Benchmark
(1/2 Interm. HY & 1/2 U.S. Corporate 1-5) 0.63

CAM Short Duration IG Strategy 1.20
Bloomberg Barclays U.S. Corporate 1-5 Yr 1.22

CAM Broad Market Strategy 0.80
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 indicates we have largely been successful. Sharpe Ratios of the Investment Grade and High Yield Strategies exceeded their respective benchmarks by approximately 4% and 8%, respectively. The Short Duration Investment Grade and Broad Market strategies approximated their benchmarks. The Short Duration Strategy's Sharpe Ratio trailed the benchmark primarily due to total return underperformance in the 5-year and older periods.

<u>Spreads to Treasuries by Credit Rating</u> show significantly lower risk of BA and B rated bonds. Source: Bloomberg Barclays Capital (12/31/99 to 12/31/20)

Rating	BA	B	CAA
Avg Spread	372	531	967
Std. Dev.	170	229	430
12/31/2020	**264**	**379**	**715**
Lowest Spread	151	228	378