First Quarter 2021
Bond Market Review
and Outlook

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

"We would be monitoring inflation expectations very carefully. If we see them moving persistently and materially above levels we're comfortable with, then we'd react to that." Fed Chairman, Jerome Powell, 4/8/21 *Bloomberg News*

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	2020	2021
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%	CCMP 36.7%	Conv 55.7%	Mid Cap 13.5%
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%	S&P 500 31.5%	CCMP 45.1%	Russell 2000 12.7%
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%	REITs 28.7%	Russell 2000 19.9%	REITs 8.3%
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 26.2%	EM Equity 18.8%	S&P 500 6.2%
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%	Russell 2000 25.5%	S&P 500 18.4%	Conv 3.0%
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 11.8%	Russell 2000 14.6%	Loans 0.6%	Conv 23.1%	Mid Cap 13.6%	CCMP 3.0%
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 18.8%	High Grade 9.8%	EM Equity 2.2%
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 17.7%	US Gov't 8.2%	Loans 1.9%
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%	High Yield 14.4%	EM Corp 7.5%	High Yield 0.9%
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 14.3%	Prefs 6.9%	Cash 0.0%
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%	High Grade 14.2%	High Yield 6.2%	Munis -0.4%
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%	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%	Prefs -1.0%
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 8.7%	EM Sov 4.8%	Mtges -1.2%
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%	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%	EM Corp -1.7%
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%	US Gov't 7.0%	Loans 3.5%	High Grade -4.5%
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 6.5%	Cash 0.5%	US Gov't -4.6%
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 2.2%	REITs -5.1%	EM Sov -5.4%

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, 2021

Inflation concerns rocked the bond markets during the first quarter driving the Investment Grade Index down –4.5% (source: *CreditSights* and BAML). However, the High-Yield Index showed resiliency and posted a 90 basis point positive return for the first quarter (source: ibid).

The Fed predicted inflation will move above the 2% target in the second and third quarters, driven by rebounding consumer demand and temporary supply shortages with GDP rebounding smartly to 6.5% for 2021 (source: Federal Reserve 3/17/21 policy meeting). This is an increase from their previous projection of 4.2% GDP growth.

The Fed forecasts inflation to ebb as we enter 2022, as supply chains stabilize and pent up consumer demand moderates. The FOMC reiterated forecasts to maintain near-zero in-

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Yields* on 03/31/2021	**Yield***
CAM Broad Market (corporate core plus) Strategy (7.4 year maturity; 5.7 duration)	**2.77%**
CAM Investment Grade (100% corporate bonds) Strategy (7.4 year maturity; 6.3 duration)	**2.17%**
CAM High-Yield Strategy (only BA & B rated purchased) (7.4 year maturity; 4.5 duration)	**3.99%**
CAM Short Duration Strategy (3.8 year maturity; 2.7 duration; 50% IG & 50% HY)	**2.08%**
CAM Short Duration Investment Grade Strategy (3.6 year maturity; 3.2 duration)	**1.06%**
U.S. Treasury** (10 year maturity)	**1.74%**
U.S. Treasury** (5 year maturity)	**0.94%**
U.S. Treasury** (2 year maturity)	**0.16%**

* 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 (%)			
	1Q '21	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	-2.46	11.38	6.18	4.69	4.61
CAM High Yield "Upper Tier" Strategy—Net only purchase BB and B; no purchases of CCC & lower	-0.09	19.12	6.82	6.16	4.40
Bloomberg Barclays US Corporate High Yield Index	0.85	23.72	6.84	8.06	6.48
CAM Investment Grade Strategy—Net 100% corporate bonds	-3.55	8.02	5.92	4.01	4.72
Bloomberg Barclays US Corporate Index	-4.65	8.73	6.20	4.91	5.04
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	0.25	12.46	5.29	4.46	3.32
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	-0.79	6.91	4.21	2.74	3.40

Relative Performance Review 03/31/2021

CAM's **Investment Grade Strategy** ("**IG**") produced a gross total return of -3.50% in the quarter ended March 31, 2021, compared to -4.65% for the Bloomberg Barclays U.S. Corporate Index. CAM always positions a majority of the portfolio within intermediate maturities. Longer dated securities (10+ years) underperformed the index during the period, and CAM's zero weighting in this duration bucket produced a +150 basis point contribution to excess return. The RTM return for the CAM IG strategy was 8.27% compared to the Index return of 8.73%. The BAA credit tiers dramatically outperformed during the period, with lower tiers producing the highest returns. CAM's net positioning with the BAA rating bucket produced -84 basis points of contribution to excess return.

The **High Yield Strategy** ("**HY**") delivered a gross total return of -0.01% in Q1 while the Bloomberg Barclays High Yield Index returned 0.85%. At 3/31/2021 the modified duration of CAM's portfolio was 4.5 while the modified duration of the index was 3.8. The net effect of CAM's maturity profile served as a -84 basis point benefit relative to the index during the quarter. The HY RTM return was 19.47% while the Bloomberg Barclays High Yield Index returned 23.72%. CAM does not purchase securities rated Caa and lower and the impact of CAM's underweight in lower quality credit was a -145 basis point contribution to excess return during the quarter.

Our **Broad Market Strategy ("BM")** – a 67% -33% blend of IG-HY bonds – produced a gross total return of -2.40% for the quarter ended March 31, 2021 compared to -2.84% 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 first quarter, 18.0% of the portfolio was positioned in Baa-rated credit subsectors, while the Index's exposure was 32.6%. The net effect of this structural allocation accounted for 33 basis points of outperformance versus the Index. The RTM return for the CAM Broad Market strategy was 11.68% compared to blended Index return 13.55%. CAM does not purchase Caa and lower-rated credit as the volatility is inappropriate for many investors. The result of this structural underweighting produced a -84 basis point contribution 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 March 31, 2021 was 0.32% while the Index, a similar blend of the intermediate components of Bloomberg Barclays IG and HY corporates, returned 0.22%. CAM's duration profile is shorter than the blended index, and longer paper (5+ years) dramatically outperformed, producing a -4 basis point contribution to excess return during the period. The RTM gross total return was 12.76% compared to the blended Index return of 14.54%. Notably, our structural avoidance of Caa credit produced a -92 basis point contribution to excess return.

The **Short Duration Investment Grade Strategy ("SD-IG")** delivered a gross total return of -0.73% for Q1 while the Bloomberg Barclays U.S. Corporate 1-5 Index returned -0.59%. CAM's weighting and positioning within the Airline industry was the largest positive contributor to performance with a +12 basis point contribution to excess return during the quarter. Over the RTM period, SD-IG outperformed the Index by delivering 7.18% gross total return versus an Index return of 7.13%. Again, CAM's weighting and positioning within the Airline industry was the largest single positive contribution to performance, which generated a +47 basis point contribution to excess return.

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

Periods ended 03/31/2021	10-yrs	20-yrs
U.S. Aggregate	3.44	4.50
U.S. Corporate	5.04	5.62
CAM Investment Grade Strategy	4.98	5.57

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 modestly underperformed the returns of the S&P 500 over the last 20-years. Lower rated CAA bonds have approximated the S&P 500 for the 20-year period, while the lowest rated (CA & D) have produced negative returns for the 10-year and 20-year periods.

The chart also indicates that CAA rated securities outperformed B rated and BA rated bonds for all periods. However, not shown in the table is the pronounced volatility that has characterized the CAA subsector. 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, BA rated bonds have outperformed the Bloomberg Barclays US Aggregate Index for all periods shown. Even inclusive of the annualized double digit S&P 500 returns over the past 10-years, they modestly underperformed the S&P 500 for the 20-year period by an annualized 80 basis points. Notably, 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 03/31/2021) Source: Credit Suisse First Boston **(annualized %)**

High-Yield Bond Sectors	5-years	10-years	20-years
BA-rated bonds	7.03	6.52	7.64
B-rated bonds	7.18	6.04	7.11
CAA-rated bonds	12.65	6.94	8.52
CA & D-rated bonds	7.43	-6.73	-2.19

Performance of Other Asset Classes

(periods ended 03/31/2021) Source: Bloomberg Barclays & Lipper

	5-years	10-years	20-years
S & P 500 Stocks	16.20	13.87	8.44
Bloomberg Barclays U.S. Aggregate	3.11	3.44	4.50

Yield Spreads Over U.S. Treasuries:

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 2021 at 1.74% compared to recent year-ends: 0.93% (2020), 1.88% (2019) and 2.72% (2018).

As of 3/31/2021, absolute spreads for all credit subsectors are tighter than those at 12/31/2020. This fundamental dynamic of corporate bond markets, in addition to coupon income, created a positive offset to the negative impact of increasing Treasury rates. Also notable is that the A and BAA subsector spread levels are not dissimilar to those at 12/31/19, while the BA and B subsectors are wider.

Credit Rating	20-Year Average Spread	03/31/21	12/31/20	12/31/19	12/31/18	12/31/17	Tightest This Decade
A	1.22%	0.71%	0.73%	0.70%	1.18%	0.73%	0.69%
BAA	1.92%	1.12%	1.21%	1.20%	1.97%	1.24%	1.12%
BA	3.80%	2.27%	2.64%	1.82%	3.54%	2.11%	1.30%
B	5.26%	3.34%	3.79%	3.24%	5.31%	3.43%	2.28%
CAA	9.50%	5.86%	7.15%	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	2021
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%	US CCC 6.1%
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%	High Yield 2.8%
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%	High Yield 9.2%	US AA 0.6%	US B 2.5%
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 BB 2.3%
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%	US BBB 1.3%
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%	High Grade 0.9%
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 AAA 0.8%
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 AA 0.7%
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 3.4%	US CCC -2.1%	US A 0.4%

Source: CreditSights, ICE BofAML Indexes data through 03/31/2021

(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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terest rates over the next three years and to continue buying $120 billion each month of Treasury debt and mortgage-backed securities. So rate increases by the Fed seem unlikely prior to 2024.

Nearly all economists agree that inflation metrics such as CPI, core CPI, and personal consumption expenditures price index (PCE) will spike temporarily, given the manner in which they are calculated. This is referred to as the *base effect*. The year over year increases for numerous economic indicators will appear large due to the reduced economic activity in 2020 resulting from the onset of the pandemic related business shutdowns. Price indexes fell in March and April of 2020 and remained low in May due to the lockdowns and universal business closures. As the year over year comparisons normalize later in 2021 and into 2022, the inflation and spending indexes should moderate and fall back to their pre-pandemic levels.

At the time of this writing, March CPI and core (excluding food and energy) CPI data were released. CPI rose 2.6% and core CPI rose 1.6% from 12 months ago (source: *Bloomberg* Labor department report 4/13/21). The immediate bond market reaction was a slight decline in yields, possibly signaling that investors expect the *base effect* scenario to develop as the Fed expects.

The FED's goal to reach maximum employment as stated in their FOMC March meeting is an important element that will work to keep rates low. Noting more than eight million currently considered unemployed and millions more excluded because they aren't seeking work, "maximum employment" is a distant goal even with the strong February and March jobs report.

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Footnotes and disclosure

Cincinnati Asset Management, Inc., ("CAM") an independent privately held corporation established in 1989, is registered with the United States Securities and Exchange Commission as an investment advisor. The CAM High Yield, Investment Grade, Broad Market, Short Duration, and Short Duration-Investment Grade composites consist of all discretionary portfolios under management, including all securities and cash held in the portfolios, and have been appropriately weighted for the size of the account. All accounts are included after they are substantially invested.

Returns are calculated monthly in U.S. dollars and include reinvestment of dividends and interest. Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Past performance is no guarantee of future results.

When compared to indices' performance, CAM results are after deduction of all transaction costs and CAM advisory fees. CAM advisory fees used are the composite averages. Accounts managed through brokerage firm programs usually will include additional fees. "Net of fees" herein refers only to CAM's management fee. Returns audited annually. Most recent audit available upon request.

S&P 500 averages are published quarterly in Barron's as supplied by Lipper Analytics.

The indices and information shown for comparative purposes are based on or derived from information generally available to the public from sources believed to be reliable. No representation is made to its accuracy or completeness.

High yield bonds may not be suitable investments for all individuals. Before investing a thorough reading of all materials and consultation with an independent third party financial consultant may be appropriate. Fixed Income securities may be sensitive to changes in prevailing interest rates. When rates rise the value generally declines. For example, a bond's price drops as interest rates rise. For a depository institution, there is also risk that spread income will suffer because of a change in interest rates. The Indices are referred to for informational purposes only and the composition of the Index is different from the composition of the accounts included in the performance shown above. Index returns do not reflect the deduction of fees, trading costs or other expenses.

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The unemployment rate fell to 6% in March, and the workforce participation rate edged up to 61.5%, but still well below its 63.4% high in February 2020 (source: *Bloomberg* 4/2/21). Nonfarm payrolls increased by 916,000 in March and 468,000 in February (source: *Bloomberg 4/2/21).* This increase is attributable to reopening of the economy. This is driven in part by the rise in daily COVID vaccinations to around 3 million people (source: Dr. Walensky, CDC Director as reported in the New York Post 4/7/21). Furthermore, she cited a 19.7% decline in deaths over the previous week with 76% of seniors and 80% of teachers and childcare workers having received at least one vaccination shot.

Dr. Markey of Johns Hopkins School of Medicine estimates that herd immunity is near at hand when estimates of those who have been infected and those who are asymptomatic are added to the vaccinated population (source: *Wall Street Journal* 3/24/21 and 2/18/21). So, the economic and jobs rebound from reopening may be faster than anticipated.

Productivity gains, which tend to rebound smartly after recessions, slow inflation. Increases in capacity utilization have been a primary element of the gain. However, new technology breakthroughs are now increasingly important. One interesting case is Microsoft's acquisition of Nuance Communications. Nuance developed an artificial intelligence voice technology platform that transcribes doctor's patient conversations and integrates them into electronic health records. This frees the doctor from the time consuming task of typing up notes after each patient visit.

Another drag on inflation are the businesses that closed during the pandemic and the jobs lost they provided that are lost forever. Last September Yelp's Local Economic Impact Report noted that nearly 60% of businesses that closed during the pandemic would never reopen. The report listed 163,735 businesses as closed, with 97,966 of the closures permanent (source: *NY Post* 9/17/20). A Bloomberg bankruptcy report in December echoed this grim news.

The economic landscape is still shifting as work from home protocols develop more permanency. A recent *Wall Street Journal* article (3/30/21) lists a number of large companies in the process of cutting back on leased office space in major metropolitan areas. JP Morgan, Wells Fargo, Salesforce.com, PricewaterhouseCoopers were noted as trying to sublease their space. CBRE Group cited 137 million square feet of office space available for sublease at the end of 2020, up 40% from a year ago (source: *Wall Street Journal* 3/30/21). The common theme among these firms is less need for office space as plans for more employees to work from home, at least part-time, develop permanency. The lower office space demand represents a deflationary influence.

The same could be concluded regarding retail real estate given the growth of ecommerce. According to BDO survey data, 42% of retail CFOs reported that they expect to restructure as the COVID–19 pandemic persists (source: *Kendall Davis/Retail Dive* 3/3/21). This is another source of GDP drag.

So, while the economy is improving, long-term inflation appears to be tepid.

Sharpe Ratios (risk & reward relative value) Inception-Q1 2021

CAM Investment Grade Strategy 0.47
Bloomberg Barclays U.S. Corp Bonds 0.44

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 1.16
Bloomberg Barclays U.S. Corporate 1-5 Yr 1.18

CAM Broad Market Strategy 0.77
Bloomberg Barclays Weighted Benchmark
(2/3 Corporate and 1/3 High Yield) 0.76

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 7% 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.

Rating	BA	B	CAA
Avg Spread	370	529	963
Std. Dev.	170	228	429
03/31/2021	**227**	**334**	**586**
Lowest Spread	151	228	378

Spreads to Treasuries by Credit Rating show significantly lower risk of BA and B rated bonds. Source: Bloomberg Barclays Capital (12/31/99 to 03/31/21)