

Third Quarter 2020 Bond Market Review and Outlook



“The coronavirus remains the biggest risk to the economic outlook...another risk on the economy is the fatigue of uncertainty” Mary Daly, San Francisco Federal Reserve President from *The Wall Street Journal* 10/15/20 interview.

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		
S&P 500 33.3%	CCMP 40.2%	CCMP 86.1%	REITs 26.4%	REITs 19.9%	EM 3.7%	EM 55.8%	REITs 31.6%	EM 34.3%	REITs 35.1%	EM 39.7%	US 14.0%	EM 78.9%	REITs 27.9%	Munis 11.2%	REITs 9.7%	CCMP 40.2%	REITs 28.0%	Prefs 7.6%	Russell 21.3%	EM 37.8%	Cash 18%	CCMP 36.7%	Conv 27.9%		
Mid 32.2%	S&P 28.6%	EM 66.5%	Mid 17.5%	High 0.7%	US 16%	EM 50.8%	EM 26.0%	EM 32.5%	EM 8.3%	CCMP 0.7%	Mtges 8.3%	High 57.5%	Russell 2000 26.6%	US 9.8%	EM 8.6%	Russell 2000 38.8%	Prefs 5.4%	CCMP 7.1%	Mid 20.7%	CCMP 29.7%	Munis 10%	S&P 500 28.7%	CCMP 25.4%		
Russell 22.4%	Mid 9.1%	Conv 36.0%	Munis 17.1%	Prefs 9.8%	Munis 10.7%	Russell 47.3%	Russell 8.3%	REITs 12.2%	US 8.3%	US 17%	Cash 17%	Loans 52.5%	Mid 26.6%	REITs 8.3%	Sov 8.3%	Mid 33.5%	CCMP 14.8%	Munis 3.6%	High 17.5%	S&P 500 21.8%	Mtges 10%	REITs 28.7%	US 9.2%		
CCMP 22.2%	Conv 2.2%	EM 23.6%	Prefs 17.5%	Mtges 8.7%	High 0.2%	REITs 37.7%	S&P 16.5%	EM 2.0%	EM 5.0%	EM 8.0%	Munis 9.1%	Mid 45.6%	EM 9.2%	EM 8.2%	EM 17.8%	S&P 32.4%	S&P 3.7%	REITs 2.8%	EM 2.0%	Mid 16.2%	US 0.8%	Mid 26.2%	High 6.6%		
REITs 20.3%	US 10.0%	Russell 14.7%	EM 14.7%	EM 7.0%	EM 35.6%	EM 18.8%	EM 5.7%	EM 2.0%	EM 7.0%	High 16.8%	CCMP 45.3%	CCMP 8.1%	High 7.5%	CCMP 7.7%	Conv 26.6%	Conv 0.0%	Mtges 15%	Russell 119%	EM 6.0%	Conv 0.7%	Russell 25.5%	S&P 500 5.6%			
Conv 15.5%	High 8.7%	S&P 21.0%	US 14.7%	US 6.7%	Mtges 9.4%	S&P 28.7%	EM 0.9%	Loans 18.8%	High 11.8%	EM 6.4%	EM -10.2%	EM 38.3%	Conv 6.1%	Mtges 6.1%	Russell 16.4%	High 7.4%	Munis 14%	S&P 14%	EM 118%	Russell 14.6%	Loans 23.1%	Conv 3.7%	Mtges 5.6%		
EM 15.7%	Mtges 7.2%	Mid 14.7%	EM 11.3%	EM 4.8%	Prefs 7.7%	High 28.1%	High 10.9%	S&P 4.9%	S&P 0.9%	S&P 5.6%	EM -17.5%	EM 37.3%	High 15.2%	High 4.4%	EM 5.0%	S&P 5.4%	EM 9.7%	EM 13%	EM 10.4%	Prefs 10.6%	EM -13%	EM 8.8%	EM 3.3%		
High 13.3%	Munis 7.1%	EM 14.5%	EM 9.8%	High 4.5%	REITs 3.8%	EM 27.6%	CCMP 10.3%	Russell 4.5%	EM 0.6%	Cash 4.8%	Prefs -25.2%	REITs 28.0%	S&P 5.1%	EM 4.2%	High 5.6%	REITs 2.9%	High 7.5%	US 0.8%	EM 9.8%	EM 10.0%	High -2.2%	Prefs 7.7%	Munis 3.2%		
Munis 10.9%	Prefs 6.7%	Cash 4.7%	High 9.1%	Munis 4.5%	Loans 2.6%	Conv 23.0%	EM 8.9%	Munis 3.9%	Mid 0.3%	High 4.6%	High -26.4%	EM 27.2%	Prefs 4.1%	EM 3.7%	Cash 0.0%	EM 7.3%	EM 0.6%	EM 9.5%	REITs 8.7%	High -2.3%	High 14.4%	Prefs 2.3%	Munis 9.2%		
High 10.4%	Loans 5.6%	Loans 4.1%	Cash 6.0%	Cash 4.1%	Cash 17%	EM 14.5%	Conv 8.3%	Cash 3.0%	Prefs 8.1%	EM 4.4%	EM -29.3%	Russell 27.1%	EM 2.8%	S&P 2.1%	Conv 3.6%	EM -1.3%	Mtges 6.1%	Loans 0.1%	CCMP 9.0%	High 7.5%	CCMP -2.8%	EM 14.3%	Cash 0.5%		
Prefs 10.0%	Cash 5.1%	High 2.5%	Loans 5.1%	Loans 3.3%	High -19%	Loans 9.8%	US 5.5%	US 2.8%	Loans 3.9%	Conv -29.4%	S&P 26.4%	EM 12.5%	Loans 15%	Prefs 13.6%	US -14%	Mtges 6.0%	US 0.0%	Cash 8.6%	REITs 7.3%	EM -4.0%	High 14.2%	High -0.3%			
US 9.6%	High 3.0%	Russell 16%	Russell -3.1%	Mid -0.6%	EM -5.9%	High 8.3%	Loans 5.3%	Mtges 2.6%	Mtges 5.3%	High 2.2%	Mid -36.2%	High 18.8%	High 9.5%	CCMP -0.8%	Loans 9.8%	EM -2.3%	EM 3.7%	Conv -12%	Prefs 2.3%	Munis 5.4%	S&P -4.4%	Loans 8.7%	EM -10%		
Mtges 9.3%	Russell -2.5%	High -1.9%	High -5.1%	Mid -0.6%	EM -5.9%	High 8.3%	Loans 5.3%	Mtges 2.6%	Mtges 5.3%	High 2.2%	Mid -36.2%	High 18.8%	High 9.5%	CCMP -0.8%	Loans 9.8%	EM -2.3%	EM 3.7%	Conv -12%	Prefs 2.3%	Munis 5.4%	S&P -4.4%	Loans 8.7%	EM -10%		
Loans 7.5%	EM -15.3%	US -2.4%	Conv -7.5%	EM -2.4%	EM -14.5%	EM 6.2%	Prefs 5.1%	CCMP 2.1%	Munis 5.0%	Loans 2.0%	S&P -37.0%	Munis 14.5%	US 5.9%	Mid -17%	Munis 7.3%	Munis -2.9%	High 2.5%	Mid 17%	Mtges 4.3%	Loans -4.3%	EM -4.8%	Munis -16%			
Cash 5.3%	REITs -17.5%	Prefs -4.4%	S&P -9.1%	Conv -29%	Russell -20.5%	Mtges 3.3%	Mtges 4.7%	High 2.0%	Cash 4.8%	Russell -16%	REITs -37.7%	Mtges 5.8%	Mtges 5.7%	Conv -3.8%	Mtges 2.6%	US -3.3%	Loans 18%	Russell -4.4%	US 1%	Mtges 2.4%	Russell -11.0%	US 7.0%	Mid -8.6%		
EM -16%	EM -26.0%	REITs -4.6%	EM -30.7%	S&P -119%	US -22.1%	US 2.3%	US 3.5%	US 10%	Prefs 4.4%	Prefs -113%	CCMP -40.0%	Cash 0.1%	Munis 2.3%	Russell -4.2%	US 2.2%	Prefs -3.7%	Cash 0.0%	High -4.6%	Munis 0.4%	US 2.4%	EM -11%	Mtges 6.5%	Russell -8.7%		
EM na	EM na	Munis -6.3%	CCMP -39.2%	CCMP -20.8%	CCMP -31.2%	Cash 1%	Cash 13%	Conv -0.2%	US 3%	REITs -15.7%	EM -53.2%	US -3.7%	Cash 0%	EM -8.2%	EM 0%	EM -5.8%	EM -4.6%	Cash 0.2%	Cash 0.8%	EM -4.3%	Cash 2.2%	REITs -12.3%			

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 = NA SDAQ
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, 2020

Even with all the uncertainties created by the pandemic, third quarter GDP forecasts are up around 30%. The Federal Reserve's Bullard weighs in at 30% (source: *Wall Street Journal* 10/6/20), while J.P. Morgan forecasts 34.5% (source: J.P. Morgan Global economic outlook survey).

More encouraging is the Federal Reserve Vice Chairman, Richard Clarida observing that “the downturn that struck earlier this year may go into the record books as the briefest recession in U.S. history” (source: *Wall Street Journal* 10/14/20). He added that “the rebound in economic data since May has been surprisingly strong and the recovery has been broad based across indicators of goods

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Yields* on 09/30/2020	Yield*	CAM's Key Strategic Elements
CAM Broad Market (corporate core plus) Strategy (7.3 year maturity; 5.7 duration)	2.77%	<ul style="list-style-type: none"> • 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 Investment Grade (100% corporate bonds) Strategy (7.3 year maturity; 6.2 duration)	1.78%	
CAM High-Yield Strategy (only BA & B rated purchased) (7.1 year maturity; 4.3 duration)	5.04%	
CAM Short Duration Strategy (3.5 year maturity; 2.6 duration; 50% IG & 50% HY)	3.23%	
CAM Short Duration Investment Grade Strategy (3.5 year maturity; 3.2 duration)	1.09%	
Tax Equivalent Muni GO Bond (7 year, 0.87%) Bloomberg Barclays Institutional Index (Yield to right is after 40% tax equivalency and 3-point retail price markup for small buys under \$1 M)	0.52%	
U.S. Treasury** (10 year maturity)	0.69%	
U.S. Treasury** (5 year maturity)	0.28%	
U.S. Treasury** (2 year maturity)	0.13%	
<p>* The lower of yield to maturity or yield to worst call date ** Source: Bloomberg Barclays</p>		
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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 (%)			
		3Q '20	1-YEAR	3-YEARS	5-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	2.54	6.73	5.46	5.10	4.64
CAM High Yield “Upper Tier” Strategy—Net only purchase BB and B; no purchases of CCC & lower	4.48	4.71	4.80	5.08	4.46
Bloomberg Barclays US Corporate High Yield Index	4.59	3.25	4.21	6.79	6.47
CAM Investment Grade Strategy—Net 100% corporate bonds	1.71	7.53	5.79	5.06	4.71
Bloomberg Barclays US Corporate Index	1.54	7.90	6.40	5.98	5.15
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	2.32	5.02	3.92	3.58	3.19
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	0.79	4.95	3.58	3.02	3.19

groups, which contributed 34 and 26 basis points of excess return, respectively.

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, 2020 was 2.39% while the Index, a similar blend of the intermediate components of Bloomberg Barclays IG and HY corporates, returned 2.67%. Of note, CAM's positioning within the Leisure industry had the biggest positive impact on performance relative to the Index with a 21 basis point contribution to excess return. The YTD gross total return was 3.76% compared to the blended Index return of 2.11%. CAM's industry underweight as well as security selection within the Independent Energy industry group had the biggest positive impact on performance relative to the index with a 44 basis point contribution to excess return.

The **Short Duration Investment Grade Strategy (“SD-IG”)** delivered a gross total return of 0.85% for Q3 while the Bloomberg Barclays U.S. Corporate 1-5 Index returned 0.92%. CAM's weighting and positioning within the Consumer Cyclical Services and Metals & Mining industries produced positive contributions to performance, with +9 and +5 basis point contributions to excess return during the quarter, respectively. Over the YTD period, SD-IG outperformed the Index, by delivering 4.38% gross total return versus an Index return of 4.22%. 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.

Relative Performance Review 09/30/2020

CAM's **Investment Grade Strategy (“IG”)** produced a gross total return of 1.76% in the quarter ended September 30, 2020, compared to 1.54% for the Bloomberg Barclays U.S. Corporate Index. CAM targets a 30% limitation on its exposure to BAA-rated credit while the Index averaged an exposure of 48.8% during the third quarter. BAA credit outperformed A-rated credit during the period, and despite our significant underweight, CAM's positioning within the BAA space produced 9 basis points of contribution to excess return. The YTD return for the CAM IG strategy was 6.74% compared to the Index return of 6.64%. CAM's positioning within the Banking and Independent Energy industries were the largest positive impacts to performance, with +50 basis points and +35 basis points of contribution to excess return, respectively.

The **High Yield Strategy (“HY”)** delivered a gross total return of 4.56% in Q3 while the Bloomberg Barclays High Yield Index returned 4.59%. The HY YTD return was 2.60% while the Bloomberg Barclays High Yield Index returned +0.62%. CAM does not purchase securities rated Caa and lower. The impact of CAM's underweight in lower quality credit was a -

14 basis point contribution to excess return during the quarter, which was offset by a) our maturity profile and b) security selection, primarily in the Leisure and Independent Energy industry groups. 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 coming in at +103 basis points.

Our **Broad Market Strategy (“BM”)** – a 67%-33% blend of IG-HY bonds – produced a gross total return of 2.60% for the quarter ended September 30, 2020 compared to 2.56% 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. At the end of the third quarter 49.4% of the portfolio was positioned in A-rated or better credit subsectors, while the Index's exposure was 33.7%. The net effect of this structural allocation accounted for 21 basis points of underperformance versus the Index, which was offset by CAM not owning longer dated securities (10+ years). The YTD return for the CAM Broad Market strategy was 5.50% compared to blended Index return 4.65%. Notably, our outperformance for the year is attributable to our prudent security selection in the Banking and Cable Satellite industry

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

Periods ended 09/30/2020	10-yrs	20-yrs
U.S. Aggregate	3.63	5.01
U.S. Corporate	5.15	6.10
CAM Investment Grade Strategy	4.97	6.08

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. BA rated bonds have outperformed the Bloomberg Barclays US Aggregate Index for all periods shown.

The chart also indicates that CAA rated securities underperformed BA rated bonds for the longer 20-year period. 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 ranked second worst.

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 09/30/2020) Source: Credit Suisse First Boston
(annualized %)

High-Yield Bond Sectors	5-years	10-years	20-years
BA-rated bonds	6.85	6.50	7.77
B-rated bonds	5.73	6.05	6.72
CAA-rated bonds	8.10	6.81	7.03
CA & D-rated bonds	-4.46	-9.05	-5.10

Performance of Other Asset Classes

(periods ended 09/30/2020) Source: Bloomberg Barclays & Lipper

S & P 500 Stocks	14.15	13.69	6.40
Bloomberg Barclays U.S. Aggregate	4.18	3.63	5.01

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 September 30, 2020 at 0.69% compared to recent year-ends: 1.88% (2019) and 2.72% (2018).

Absolute spreads for all credit subsectors are substantially wider versus 12/31/2019 due to the COVID-19 pandemic. 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 investment grade credit market has 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	09/30/20	06/30/20	12/31/19	12/31/18	12/31/17	Tightest This Decade
A	1.28%	1.04%	1.13%	0.70%	1.18%	0.73%	0.69%
BAA	1.99%	1.73%	1.94%	1.20%	1.97%	1.24%	1.12%
BA	3.71%	3.82%	4.56%	1.82%	3.54%	2.11%	1.30%
B	5.30%	5.40%	6.43%	3.24%	5.31%	3.43%	2.28%
CAA	9.56%	10.40%	13.08%	9.20%	9.89%	6.15%	3.78%

s Return Rankings - USD Corporate Credit Ratings Tiers																			
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
US AAA 8.4%	US AAA -1.4%	US A 3.5%	US AA 0.5%	US CCC 58.5%	US CCC 13.2%	US B 17%	US CCC 15.2%	US AAA -2.3%	US AAA -9.3%	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 AAA -12%
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 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 6.1%	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 -2.13%	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 6.7%	US BB 5.6%	US A -2.6%
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 BB -5.4%	US A -22.4%	US BB 46.8%	US BB 8.9%	High Yield -3.3%	US BB 12.2%	US BB 7.8%	US AA -16%	High Grade 119%	US BB 5.4%	US B -2.8%	High Grade -2.8%
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 BBB 35.0%	US BBB 4.0%	US AAA -3.6%	US BBB 9.4%	US BBB 3.3%	US BBB -0.1%	US BBB -2.4%	US BBB 6.9%	US BBB 4.6%	US B -3.0%
High Grade 14%	US BB -10.6%	US AAA 2.2%	US B -10.6%	High Grade 5.9%	High Grade 17%	US A -0.2%	High Grade 13%	US B -6.4%	US BB -3.15%	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 0.8%	High Yield -5.3%	High Yield -3.3%	High Yield -3.4%	US A 3.6%	US A 14%	High Grade -0.8%	US A 12%	US BB -7.3%	High Yield -38.1%	US A 20.0%	US A 2.3%	US BBB -4.3%	US A 7.5%	US A 2.2%	High Yield -13%	High Yield -5.9%	US A 3.2%	US AAA 3.3%	High Yield -3.7%
US AA 0.4%	US B -17.2%	US B -6.9%	US BB -5.0%	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 AA 12.4%	US AA 15%	US A -4.3%	US AA 5.3%	US AA 19%	US B -2.0%	US B -6.3%	US AA 2.4%	US A 3.1%	US BB -3.8%
US AAA 0.1%	US CCC -2.17%	US CCC -8.6%	US CCC -15.2%	US AAA 2.0%	US AAA 10%	US CCC -2.4%	US AAA 10%	US CCC -9.2%	US CCC -48.7%	US AAA 4.1%	US AAA 13%	US CCC -7.6%	US AAA 2.1%	US AAA 10%	US CCC -5.2%	US CCC -15.2%	US AAA 2.3%	US AAA 2.4%	US CCC -5.8%

bond purchase programs are meant to provide liquidity to the markets and manage longer-term rates.

The outlook for inflation continues to be very low. The last update on 8/14/20 of the survey of professional forecasters conducted by the Philadelphia Federal Reserve reports third quarter annual inflation of 1.77% and the 10-year forecast of 2.03% per year.

Another interesting sector is the housing market, which usually tanks in recessions, but not this time. Homebuilder sentiment rose to 85, the highest since 1985, while the gauge of current single-family home sales rose to a record of 90 in October from 88 in September (source: Bloomberg 10/19/20 report on National Association of Homebuilders data). New home starts increased 1.9% in September (source: Bloomberg 10/20/20). An encouraging sign of increasing momentum is seen in applications to build that rose 5.2%, the fastest since 2007 (source: *ibid*).

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consumption, housing, and investment and is mirrored in other countries (source: *ibid*). However, he and other members of the Federal Reserve feel additional fiscal stimulus from Congress is needed to bridge the covid pandemic gap to a vaccine or other effective therapies.

Federal Reserve Chairman Powell noted that, "the expansion is far from com-

plete. At this early stage, I would argue that the risks of policy intervention are still asymmetric" (*Wall Street Journal* 10/6/20). It was noted that Powell has been recommending additional stimulus funds from Congress since April.

Regarding interest rates, Clarida noted that the Federal Reserve's short term rate target is near zero and has signaled that it intends to keep it there until at least 2023 (source: *Wall Street Journal* 10/4/20). Their

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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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(Continued from page 3)

Another sign of the economic recovery is found in the September retail sales data. Sales rose 1.9% from the prior month, marking the fifth straight month of growth (source: *Wall Street Journal* 10/16/20). Car sales which account for about 20% of total retail sales were up a strong 3.6% in September. However retail sales remain below pre-pandemic levels. JP Morgan's tracker of credit and debit card transactions showed spending was down 5.7% (source: *ibid*).

Consumer spending is poised to grow more in the coming months. Consumer confidence in September rose by the most in over 17 years. The Conference Board's index increased 15.5 points, the most since April 2003, to 101.8. This far exceeded the Bloomberg survey of

Sharpe Ratios (risk & reward relative value) Inception-Q3 2020

CAM Investment Grade Strategy 0.49
Bloomberg Barclays U.S. Corp Bonds 0.46

CAM High Yield Strategy 0.53
Bloomberg Barclays High Yield Corp Bonds 0.49

CAM Short Duration 0.52
Bloomberg Barclays Weighted Benchmark (1/2 Interm. HY & 1/2 U.S. Corporate I-5) 0.61

CAM Short Duration IG Strategy 1.18
Bloomberg Barclays U.S. Corporate I-5 Yr 1.20

CAM Broad Market Strategy 0.78
Bloomberg Barclays Weighted Benchmark (2/3 Corporate and 1/3 High Yield) 0.77

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.

economists average forecast of 90 (source: Bloomberg 9/29/20). Lynn Franco, senior director of economic indicators at the Conference Board noted that "consumers also expressed greater optimism about their short-term financial prospects, which may help keep spending from slowing further in the months ahead" (source: *ibid*).

On the covid vaccine and treatments front, Pfizer announced that it could seek emergency use authorization for its vaccine by late November after the safety milestone of the clinical trail is reached. An initial readout on the efficacy of the vaccine could come out later in October and competitor Moderna could get efficacy data later in November (source: Bloomberg 10/16/20).

Pfizer also says it is already producing the vaccine and stockpiling them to distribute as soon as regulatory approval is received. They hope to make 100 million doses available this year and plan to manufacture one billion doses in 2021 (source: *Forbes* 10/19/20 from reports in the *Mail on Sunday* report).

So, many positives are developing in the third quarter. In fact so many we can't cite all of them.

The chart to the left is interesting. It shows the holders of U.S. Corporate bonds. A recent study stated concerns about the growth of corporate bond ETFs that could lead to poor pricing if too many holders of the ETFs want to sell their shares simultaneously. They did not see the problem in other vehicles, like separate accounts and mutual funds.

Please stay safe and contact us if we may be of service.

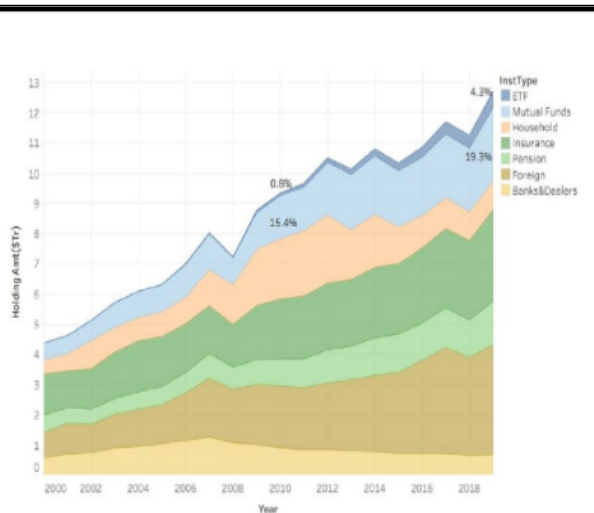
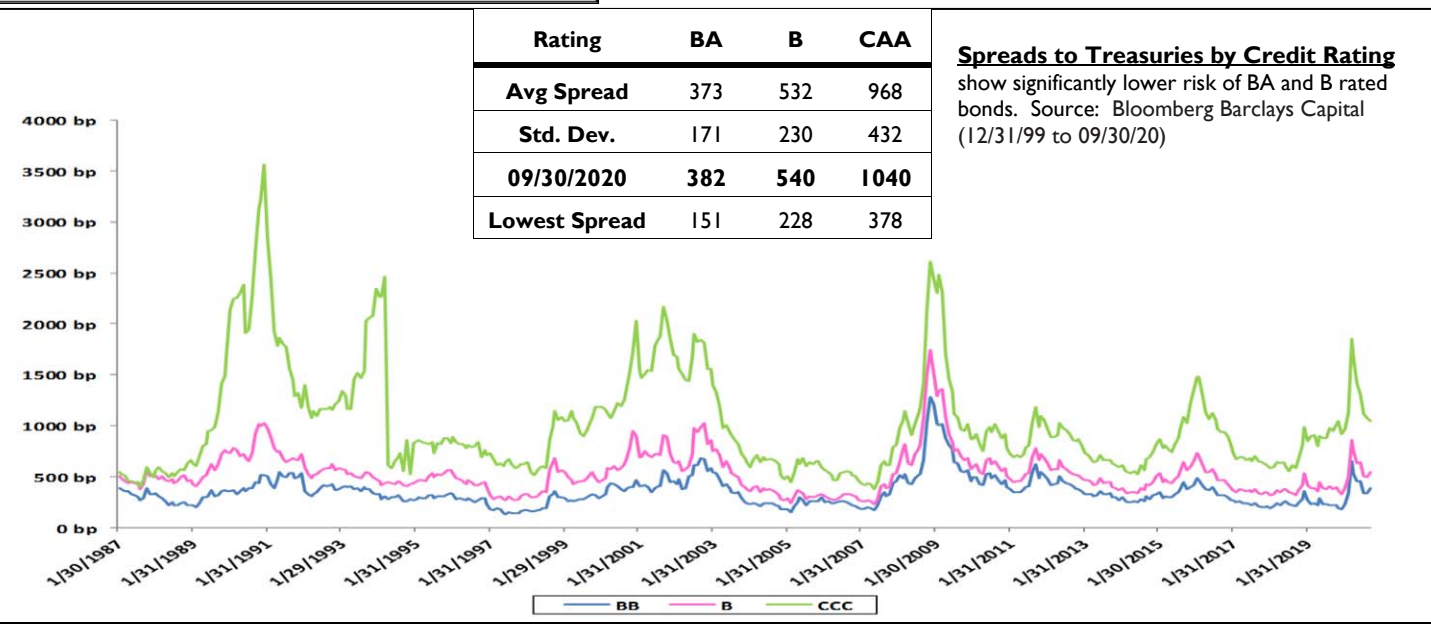


Figure 1: Holders of U.S. corporate bonds (Source: Federal Reserve Financial Accounts L.213)



Spreads to Treasuries by Credit Rating show significantly lower risk of BA and B rated bonds. Source: Bloomberg Barclays Capital (12/31/99 to 09/30/20)