

Asset Strategy Consultants

Intra-Quarter Fixed Income Update

November 2016

The bond market has been under siege since the results of the election were announced. Strong economic data (retail sales, housing, labor), increasing confidence that the Fed will hike rates in December, and anticipation that Trump's pro-growth agenda will lead to inflation have all contributed to the largest 3-week rise in Treasury yields since 2001. The 10-year US Treasury yield hit 2.3% on Friday, November 18, a 12-month high, and is up 70 bps from quarter-end. Not surprisingly, TIPS have outperformed nominal Treasuries as inflation expectations have risen, but still had negative returns as rising interest rates impact them as well. Municipal bonds have also fared poorly as investors worry about the effect of lower taxes and increased infrastructure spending on this sector. Outflows from US bond funds in the week after the election were the highest since June, 2013 (Taper Tantrum). The dollar has strengthened significantly, leading to losses in emerging markets as well as unhedged foreign bonds. The ICE Dollar Index (a basket of six currencies vs the US dollar) reached its highest level since 2003 on November 18. Finally, the equity market has hit several new highs and continues on its upward trajectory at the time of this writing.

1. Remember that, for bonds, short-term pain translates to long-term gains for bond investors. Returns may be negative for the quarter, but over longer periods investors will reap the benefits of higher yields.
2. There has been no broad-based change in fundamentals for either corporate bonds or municipal bonds since the election. This market move is reactionary and based on what investors THINK could potentially happen.
3. There is much uncertainty as to how Trump's tax and economic plans will unfold and this will not be determined over the near term.
4. We don't see a reason to alter a long-term strategic allocation but believe it is prudent to share this update with you given the magnitude of the move in the bond market.
5. We are monitoring performance of our clients' fixed income strategies and, so far, returns have not been outside of expectations.

Key Benchmark Results

		Month-to-Date thru November 25	YTD thru November 25
Barclays Agg	-0.8%	-2.5%	2.6%
Barclays Treasury	-1.1%	-2.7%	1.1%
Barclays TIPS	-0.4%	-2.3%	4.4%
Barclays Muni	-1.1%	-3.0%	-0.1%
Barclays HY	0.4%	-0.7%	14.7%
Barclays EM Sov Hard Curr	-1.4%	-4.3%	7.8%
Barclays Global Agg ex-US	-4.4%	-5.3%	2.5%
S&P 500	-1.8%	4.1%	8.3%



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Founded in 1991, Asset Strategy Consultants provides investment consulting services to institutional clients representing over \$8.2 billion under advisement. Headquartered in Baltimore, ASC has offices throughout the East Coast.

