Fixed Income Market Views

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Index	2Y UST	5Y UST	10Y UST	30Y UST	A Corp	BBB Corp	High Yield	Preferreds	Municipals	Agency CMBS
Yield (%)	1.92	1.91	2.13	2.57	3.13	3.83	6.57	5.06	1.66	2.53
Spread (bps)					93	165	393	378		51
Duration	1.92	4.71	8.80	20.24	7.43	7.60	3.37	2.99	4.96	5.37

3m/10y Yield Curve	-21.87
2y/10y Yield Curve	20.02

ECONOMIC BACKDROP

Economic Backdrop

- = +

OUR THOUGHTS

Slowing Growth: Global economic growth continues to slow. First quarter GDP in the U.S. was stronger than expected; however, the headline number was benefited by a number of temporary factors. Economic activity in Europe has weakened notably. There are signs that policy supports put in place in China in Q3 18 are starting to pass through into the real economy, but the surprise turnaround in the US/China negotiations could add new downward pressure to the Chinese economy.

RATES STRATEGY

Federal Reserve

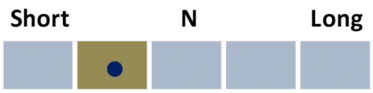
Dovish = Hawkish

OUR THOUGHTS

Rate Cuts: Currently markets are pricing in 70% chance of three cuts (75 bps) or more in 2019. The market is sending a very strong signal to the Fed that monetary policy is currently too tight. Former Fed Chairman Bernanke has been quoted as saying that you don't want to surprise markets when you hike rates, but you do want to surprise it when you cut rates. Since the market is already pricing in ~100 bps of rate cuts over the next 12 months, it is going to be difficult for the Fed to surprise the market . . .
Could QE be the surprise?

RATES STRATEGY

Interest Rate Positioning

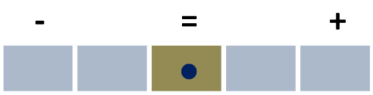


OUR THOUGHTS

Interest Rate Positioning: Over the course of the past 9 months, we have moved duration to a more neutral position but remain slightly underweight (5-10%) relative to benchmark duration. We have predominately extended duration through 5- and 7-year U.S. Treasuries, which, in addition to extending duration, have been an effective hedge during periods of spread widening. Looking ahead, there is the potential for the curve to re-steepen; and, therefore, we are maintaining our underweight. There is also a potential that the market is overestimating the number of rate cuts that will ultimately occur, which could result in interest rates being repriced higher.

CORPORATE STRATEGY

Investment Grade



IG Credit Bias

OUR THOUGHTS

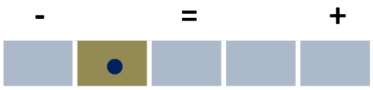
Favorable Environment: The current environment should be favorable for investment grade corporates especially with the increasing possibility of Central Bank support. If the Fed does support the markets (especially through QE) this would likely suppress volatility and create a 'search for yield' environment, which would be a tailwind to help credit spreads tighten. Furthermore, a decline in new issuance as we enter the traditionally slower summer months will be a tailwind to valuations - all else equal - over the near-term. To be clear, we are expecting moderate, not significant, spread compression.

Overweight short maturity BBBs: BBB rated bonds with 5 years or less to maturity offer the best risk-adjusted return potential. Our constructive view on select BBBs is based on the higher yield these credits offer relative to A-rated (or better) bonds. As, if not more importantly, many BBB issuers have undergone re-leveraging activities already and are now focused on improving their balance sheets. On the other hand, we believe many higher rated companies may continue to pursue re-leveraging activities leading to balance sheet deterioration. Lastly, in all environments other than a severe recession, the yield offered by short-maturity BBBs will more than offset any spread widening (price decline) on a total return basis over a 12-month period.

Sector/Issuer Positioning: Selective. Our focus is on issuers with ample liquidity, strong free cash flow generation and management teams which are concentrating on improving balance sheet metrics. Favored sectors include insurance, pipelines, REITs, telecom, utilities and select names in the media and pharmaceutical sectors.

CORPORATE STRATEGY

High Yield

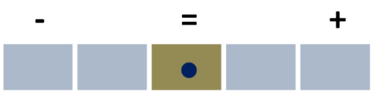


OUR THOUGHTS

High Yield - Looking for an attractive entry point: Current valuations appear slightly expensive. However, with the potential for a return to a 'lower-forlonger' interest rate environment, the higher income offered by the asset class becomes more valuable. Therefore, we will look to add exposure at times when valuations cheapen sufficiently.

PREFERRED STRATEGY

Preferreds Outlook

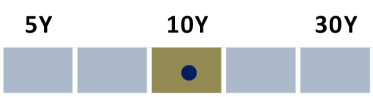


OUR THOUGHTS

Attractive on a longer-term basis: Following a challenging 2018, preferred securities have experienced very strong performance so far in 2019. Currently, valuations appear slightly stretched; however, on a longer-term basis, preferreds are attractive due to improving fundamentals, favorable supply/ demand technicals and appealing yields, particularly on an after-tax basis.

MUNICIPAL STRATEGY

Muni Positioning

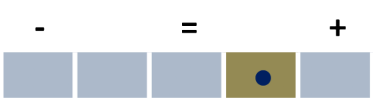


OUR THOUGHTS

Municipals: Municipal bonds appear expensive on both a before- and after-tax basis relative to U.S. Treasuries, specifically in the short-to-intermediate parts of the market; however, longer-dated munis are still attractive on an after-tax basis. We continue to focus on the higher-quality segments of the muni market, including general obligations and essential revenue-backed bonds.

CMBS STRATEGY

Agency & Non-Agency



OUR THOUGHTS

Agency Mortgages: High-quality yield. Agency MBS offer an attractive and relatively stable source of high-quality yield. We continue to focus on Freddie K mortgages due to the certainty around the maturity date of the security (essentially a bullet bond).

Non-Agency: Attractive. As has been a consistent theme for the past several years, non-agency mortgages appear attractive and offer a relatively stable return profile under a variety of macro/credit market scenarios. In addition, cash flows of these securities will be less sensitive than corporates to any disruptions in U.S. trade.

See next page for disclosures

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