Second Quarter 2019
Bond Market Review
and Outlook

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

Rising uncertainty and muted inflation “strengthens the case for a somewhat more accommodative stance of policy.” Officials “will act as appropriate to sustain the expansion”

Federal Reserve Chairman Jerome Powell as reported in *The Wall Street Journal* 7/16/19

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
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%	REITs 17.2%
Mid Cap 32.2%	S&P 500 28.5%	EM Equity 67.1%	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%	CCMP 16.8%
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%	Russell 2000 14.6%
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 14.5%
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%	S&P 500 13.6%
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 11.7%	Russell 2000 14.6%	Loans 0.6%	Conv 10.4%
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 9.9%
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 8.7%
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 7.4%
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%	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 6.4%
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%	EM Corp 5.2%
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%	High Grade 5.0%
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 4.0%
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 2.9%
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%	Mtges 2.3%
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%	US Gov't 2.2%
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 0.6%

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, 2019

What a difference a year and even 6-months makes. For the past two years, Investors were fleeing the bond markets as forecasting rising Treasury Bond yields portended red ink. Just last October the 10-year Treasury Bond yielded 3.24% at its peak (source: *Macrotrends 10-year Treasury historical chart* 7/17/19). *Barron's* penned an article quoting some of the bond market's "best" portfolio managers' outlooks for continuing rising rates. One manager commented, "Interest rates are rising...That, more than anything else, is the most important thing right now" (source: *Barron's* article titled, "How to Protect Your Portfolio From Rising Rates" 10/4/18).

At the end of the second quarter the U.S. Treasury 10-year bond was priced to yield 2.01% after closing as high as 2.78% in the first few weeks of January. Also, the 3-month to 10-year curve was inverted by 9 basis points, which some say presages an economic slow down and, possibly recession.

(Continued on page 3)

Yields* on 06/30/2019	**Yield***
CAM Broad Market (corporate core plus) Strategy (6.9 year maturity; 5.3 duration)	**3.45%**
CAM Investment Grade (100% corporate bonds) Strategy (7.2 year maturity; 5.9 duration)	**2.88%**
CAM High-Yield Strategy (only BB & B rated purchased) (6.3 year maturity; 3.8 duration)	**4.71%**
CAM Short Duration Strategy (3.6 year maturity; 2.5 duration; 50% IG & 50% HY)	**3.43%**
CAM Short Duration Investment Grade Strategy (3.0 year maturity; 2.7 duration)	**2.39%**
Tax Equivalent Muni GO Bond (7 year, 1.60%) Bloomberg Barclays Institutional Index (Yield to right is after 40% tax equivalency and 3-point retail price markup for small buys under $1 M)	**1.80%**
U.S. Treasury** (10 year maturity)	**2.01%**
U.S. Treasury** (5 year maturity)	**1.77%**
U.S. Treasury** (2 year maturity)	**1.76%**

* 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.
- <u>All</u> 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 <u>not</u> take into account fees, expenses, and transaction costs.**	**Total Return (%)**	**Annualized Returns (%)**			
	2Q '19	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	3.86	10.03	3.91	3.00	5.78
CAM High Yield "Upper Tier" Strategy—Net only purchase BB and B; no purchases of CCC & lower	3.51	9.17	5.78	1.77	6.07
Bloomberg Barclays US Corporate High Yield Index	2.50	7.48	7.52	4.70	9.24
CAM Investment Grade Strategy—Net 100% corporate bonds	3.99	10.64	3.07	3.60	5.70
Bloomberg Barclays US Corporate Index	4.48	10.71	3.94	4.08	6.07
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	1.92	6.08	3.69	1.15	4.14
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	1.95	6.13	1.96	2.26	4.38

Relative Performance Review 06/30/2019

CAM's **Investment Grade Strategy** ("**IG**") produced a gross total return of 4.05% in the quarter ended June 30, 2019, compared to 4.48% for the Bloomberg Barclays U.S. Corporate Index. IG underperformed the Index in Q2 in large part due to CAM's maturity profile. CAM always positions a majority of the portfolio within intermediate maturities and at the end of the first quarter, 79.9% of the portfolio had a modified duration between 5-10 years while 28.1% of the Index fell within this range of duration. The net effect of this maturity profile served as -27 basis point contribution to excess return. The YTD return for the CAM IG strategy was 9.20% compared to the Index return of 9.85%. The YTD performance also trailed the Index as a function of CAM's intermediate maturity profile, but additionally due to the general outperformance of BBB-rated corporate bonds, to which CAM targets a 30% limitation and is structurally underweight versus the Index.

The **High Yield Strategy** ("**HY**") delivered a gross total return of 3.59% in Q2 while the Bloomberg Barclays High Yield Index returned 2.50%. The HY YTD return was 11.07% while the Bloomberg Barclays High Yield Index returned 9.94%. HY outperformed through our security selection and allocation within the Energy sector. Specifically, CAM had zero exposure to both Independent Energy and Oil Field Services industries, which both posted negative total returns for the quarter. Also supporting our outperformance was not having any exposure to "CCC" and lower credit subsectors of the Index, which underperformed the Index as a whole. HY is always underweight these low credit subsectors believing their credit profiles and price volatility are inappropriate for many investors. HY led in the YTD period for the same reasons.

Our **Broad Market Strategy ("BM")** – a 67%-33% blend of IG-HY bonds – produced a gross total return of 3.94% for the quarter ended June 30, 2019 compared to 3.82% for the Bloomberg Barclays blended Index. It is important to note that our BM strategy achieves its BBB average credit quality via a barbell strategy of higher and lower rated securities. Our underweight position in the BBB-cohort produced a -14 basis point contribution to excess return for the quarter. However, this was more than offset by the net effect of our intermediate maturity profile (between 5-10 years) and effective security selection, primarily in the Consumer Cyclical Services, Automotive, and Banking industry groups. The YTD return for the CAM Broad Market strategy was 9.77% compared to blended Index return 9.90%. Our modest underperformance for this period relative to the Weighted Index is due to the underweight position in the BBB-cohort, which outperformed the Index as a whole.

The CAM **Short Duration Strategy** ("**SD**") blends equal weights of IG and HY short duration bonds. The strategy's gross total return in the quarter ended June 30, 2019 was 2.01% while its Index, a similar blend of the intermediate components of Bloomberg Barclays IG and HY corporates, returned 2.26%. Lower credit quality (BB and B) was a significant outperformer during the period and CAM's positioning within those lower quality tiers was a detriment to our performance versus the Index. The YTD return was 5.69% compared to the blended Index return of 7.22%. CAM's duration profile is shorter than the blended index, and longer paper (5+ years) dramatically outperformed during the period. Our underweight of this duration bucket produced -59 basis points of excess return versus the index during the YTD period.

The **Short Duration Investment Grade Strategy** ("**SD-IG**") delivered a gross total return of 2.01% for Q2 while the Bloomberg Barclays U.S. Corporate 1-5 Index returned 2.09%. CAM's duration profile (2.7) is very similar to the Index with the exception of a cash component, which produced a -4 basis point drag on performance. Over the YTD period, SD-IG delivered 4.72% versus an Index return of 4.76%. The modest underperformance versus the Index is also due to a cash drag in a period of positive total returns.

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

Periods ended 06/30/2019	10-yrs	20-yrs
U.S. Aggregate	3.90	4.93
U.S. Corporate	6.07	5.85
CAM Investment Grade Strategy	5.96	5.87

<u>Better Asset Allocation Might Result from More Exacting Analysis</u>

The chart to the right shows that BB rated bonds returned approximately 50% of S&P 500 stocks for the 5-year period, 60% over 10 years, and exceeded the returns of the S&P 500 over the last 20-years. Lower rated CCC bonds have underperformed the S&P 500 for the 5-year and 10-year periods, while the lowest rated (CC & D) have produced negative returns. Both BB and B rated bonds outperformed the Bloomberg Barclays US Aggregate Index for all periods.

The chart also indicates that CCC rated securities underperformed BB rated and B rated bonds for the 20-year period. For the shorter 10-year period, the lower credit CCC cohort outperformed. Not shown in the table is the pronounced and extreme volatility that has characterized the CCC sector. For example, during 2008, when the High Yield Index was down 26%, CCC rated bonds were down 44%, and during 2009, the Index was up 58% while CCC bonds were up 91%. In each calendar year since 1997, CCC rated bonds ranked either best or worst in Credit Sights Annual Excess Return Rankings for US corporate credit tiers, a trend that continued in 2018. The CCC longer term results were achieved with significantly more volatility than the Index.

Finally, not only have BB 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 06/30/2019) Source: Credit Suisse First Boston

(annualized %)

High-Yield Bond Sectors	5-years	10-years	20-years
BB-rated bonds	5.05	8.28	7.80
B-rated bonds	3.79	8.29	6.61
CCC-rated bonds	4.64	11.45	6.18
CC & D-rated bonds	-12.32	-0.75	-5.08

Performance of Other Asset Classes

(periods ended 06/30/2019) Source: Bloomberg Barclays & Lipper

	5-years	10-years	20-years
S & P 500 Stocks	10.71	14.65	5.89
Bloomberg Barclays U.S. Aggregate	2.95	3.90	4.93

Absolute spreads for all credit subsectors have tightened versus long-term averages but are still well above the decade lows. The June 30 spread levels (indicated at the right) enhance the value of corporate bonds versus U.S. Treasuries. The 10-year U.S. Treasury ended Q2 at 2.01% compared to recent year-ends: 2.69% (2018) and 2.41% (2017). With the U.S. Treasury yield curve flatter then it was a year ago, and indications that inflation remains stable, we have seen strong demand for bonds in the first half of 2019.

*1981-2018 Average
**1987-2018 Average

Credit Rating	Average Spread	06/30/2019	12/31/2018	12/31/2017	12/31/2016	Tightest This Decade
A*	1.20%	0.88%	1.18%	0.73%	1.01%	0.69%
BBB*	1.87%	1.46%	1.97%	1.24%	1.60%	1.12%
BB**	3.52%	2.27%	3.54%	2.11%	2.70%	1.30%
B**	5.30%	3.85%	5.31%	3.43%	3.82%	2.28%
CCC**	10.14%	8.74%	9.89%	6.15%	8.07%	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
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 CCC 6.4%
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 5.8%
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%	US B 5.7%
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 BB 5.7%
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%	US BBB 3.1%
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%	High Grade 2.6%
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 A 2.2%
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 AAA 1.7%
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 1.5%

Source: CreditSights, ICE BofAML Indexes data through 03/31/2019
(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).

(Continued from page 1)

The unpredictability of interest rates is apparent in the example above. It is one more of many examples supporting a constant allocation to the bond market. Even the pros cited in the *Barron's* article placed incorrect bets on the direction of interest rates.

Also, The U.S. bond markets don't function in a vacuum. *MarketWatch* reported that the universe of government bonds with negative yields continues to grow. Globally, the value of sovereign debt yielding less than zero swelled to $13 trillion when French and Austrian 10-year bond yields fell below zero for the first time, ever (6/21/19). The negative yields in Europe and Japan could drive foreign demand for U.S. debt. This may cause a sustained bond market rally, holding yield down and possibly pushing them lower. Furthermore, some market mavens see aging demographics and rising debt loads pressure global GDP and inflation.

The corresponding rally in the corporate bond markets for the year through June 30 has been surprisingly strong. The Bloomberg Barclays US Corporate bond index generated a total return of +9.85% for the six months ended June 30. Also, the Bloomberg Barclays US Corporate High Yield Index posted a total return of 9.94% for the first six months of 2019.

Of note in the High Yield market is the outperformance of the higher credit rated bonds. BB-rated bonds outperformed B-rated bonds, which outperformed CCC-rated bonds. The chart on the left provides return rankings by credit ratings over the years. CAM's High Yield strategy's outperformance of our benchmark High Yield Index is partially attributable to our avoidance of the riskier lower credit quality CCC and lower rating tiers of the market.

Another driver of bond market behavior is inflation. Inflation as measured by core CPI most recently was measured at 2.1% in June (source: U.S. Bureau of Labor Statistics). For the past 3-years it has

(Continued on page 4)

(Continued from page 3)

been in a range of 2.5% to 1.7%. This remains low by historical standards. A major goal of the Federal Reserve is to avoid a low inflation rate trap similar to those hobbling Japan and Europe.

However, Chairman Powell last week signaled a probable cut in rates to come later in July. Low inflation is the key reason for the cut. JP Morgan's Chief Financial Officer, Jennifer Piepszak said the bank now expects 3 rate cuts by the Federal Reserve in 2019 (source: *Wall Street Journal* 7/16/19).

Meanwhile the economy is still expanding, albeit a bit more slowly than earlier in the year. Macroeconomic Advisors now forecasts 2nd quarter GDP of 2.1%. This follows 3.1% in the first quarter of 2019 and 2.2% in the 4th quarter of 2018. The conference Board predicts GDP growth will remain above 2% for the remainder of the year (source: The Conference Board 7/10/19).

Retail consumer spending is a major element of their forecast. Consumer sales surged 3.4% year over year in June and have been positive for the past four months (source: *Wall Street Journal* 7/16/19). High consumer confidence, low unemployment, wage growth and healthy expansion of consumer debt are the underpinnings of continuing strong consumer spending. Both mortgage originations and credit card purchases expanded at JP Morgan, the largest U.S. lender by assets, by 11%. Citigroup and Wells Fargo also posted strong credit card spending increases. All three also saw increases in mortgage originations, coincident with the fall to below 4% for a 30-year fixed rate mortgage (source: *Wall Street Journal* 7/16/19).

The global trade tensions and geopolitical unrest primarily concerning Iran are two significant potential economic drags. Some consider a resolution of the trade dispute with China a catalyst for higher global GDP. However the continuing stalemate causes uncertainty for businesses, which react by deferring investments.

China, the world's second largest economy, behind the USA, is experiencing serious economic problems. Growth slowed to near a three decade low of 6.2% in the second quarter (source: *Wall Street Journal* 7/17/19). Some experts feel the centralized state model controlled from the Beijing government is inefficient, mirroring inefficiencies of other socialist run states. Some analysts question the state "official" data and say productivity growth has been negative for years. Furthermore, China's capital investments return on capital has fallen from 19% in 2007 to 8.4% in 2017. Loren Brandt, an expert on Chinese growth at University of Toronto predicts that it will be very difficult for China to sustain per capita income growth above 4%. One major element is China's growth through exports which is stalling having saturated foreign markets and generated protectionist backlash in many countries. (Source: *Wall Street Journal* 7/17/19).

All these factors support an outlook of low inflation globally and moderate GDP growth in the US, perfect for the corporate bond market.

Please contact us if we may be of assistance.

Sharpe Ratios (risk & reward relative value) Inception-Q2 2019

CAM Investment Grade Strategy 0.45
Bloomberg Barclays U.S. Corp Bonds 0.42

CAM High Yield Strategy 0.55
Bloomberg Barclays High Yield Corp Bonds 0.52

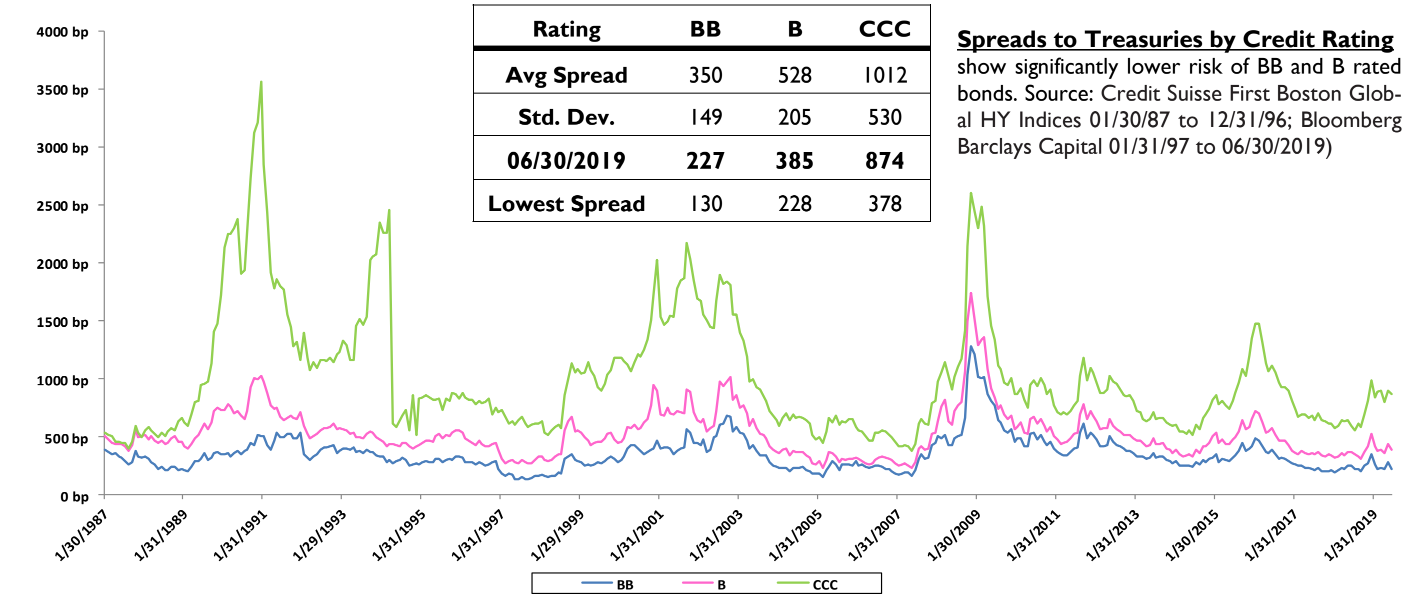
CAM Short Duration 0.53
Bloomberg Barclays Weighted Benchmark
(1/2 Interm. HY & 1/2 U.S. Corporate 1-5) 0.66

CAM Short Duration IG Strategy 1.28
Bloomberg Barclays U.S. Corporate 1-5 Yr 1.34

CAM Broad Market Strategy 0.81
Bloomberg Barclays Weighted Benchmark
(2/3 Corporate and 1/3 High Yield) 0.81

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 indicate we have been largely successful. Sharpe Ratios of the Investment Grade and High Yield Strategies exceeded their respective benchmarks by approximately 8% and 6%, respectively. The Short Duration Strategy's Sharpe Ratio trailed its benchmark's ratio by 20%, and Short Duration Investment Grade trailed its benchmark by 7%. The Broad Market Strategy produced a Sharpe Ratio equal to the benchmark's ratio.

Rating	BB	B	CCC
Avg Spread	350	528	1012
Std. Dev.	149	205	530
06/30/2019	**227**	**385**	**874**
Lowest Spread	130	228	378



Spreads to Treasuries by Credit Rating show significantly lower risk of BB and B rated bonds. Source: Credit Suisse First Boston Global HY Indices 01/30/87 to 12/31/96; Bloomberg Barclays Capital 01/31/97 to 06/30/2019)