MANAGER COMMENTARY

FIXED INCOME

GREAT LAKES ADVISORS
A WINTRUST WEALTH MANAGEMENT COMPANY

FIRST QUARTER 2017

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Nearly all sectors of the bond market finished the first quarter with positive returns. The Fed rate hike on March 15 pressured lower rates higher, but the result was a flattening yield curve, with longer maturity bonds ending the period with lower yields. High Yield bonds, and most economically sensitive issues, had the best performance but may have run out of fuel for any sustained rally.

The market bounced back nicely from the last quarter, but some of the so-called "Trump trades" have begun to unwind as long duration bond benefits may have overshot the mark. For the quarter, the Barclays Aggregate returned .82% - positive but mediocre versus other asset classes. Winners for the quarter, included both Municipal High Yield and Corporate High Yield as well as Emerging Market Debt and Foreign Debt. Laggards include US Treasuries, Mortgage Backed Bonds and Bank Loans.

Despite the "logical" approach to being short the benchmark in a rising rate environment, the underdogs won last quarter. The Fed rate hike and expectations of moderate growth were the drivers for a flatter yield curve, benefitting the long part of the curve.

Even though longer duration benefitted the bond market in 1Q17, we still believe that we are best served to be slightly short of benchmark duration. We further believe that where we are positioned on the curve and our allocations to specific sectors will work well to deliver better relative performance than account benchmarks.