MANAGER COMMENTARY

FIXED INCOME

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

SECOND QUARTER 2017

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For the period ended June 30, 2017, the Corporate market led the way with regard to total return. Comments made by key FOMC members replying to concerns that raising rates while the inflation rate remained low seemed to de-rail the Treasury market as rates on the 10-year and long bond jumped over the final days of the period. Nonetheless, long bond returns were positive, with the yield curve flattening, much like the beginning of 2016 when the curve flattened 50 basis points in the first half of the year, only to give it all back in the last half of the year. Corporate performance, as noted above, was strong, with BBB credits outperforming high grade issues by about 150 basis points. High yield returns were also impressive, and it is worthy to note that CCCs did better than BBsuntil June when oil price weakness took its toll on CCCs. Mortgage Backed bonds continue to lag the field, owing to concerns about extension risk and a very real likelihood of the Fed reducing or curtailing its purchases in the latter part of this year. Munis continue to surprise with a strong showing in the first half of this year. Technicals are driving the muni market, as new issue is very manageable versus a continued high level of maturities and calls. As with the Corporate market, BBBs outpaced AAAs. Total return for the 3 month period for the Bloomberg Barclays Aggregate Index (BB Agg) was 1.45%, with a -0.10% return in June.

Selected asset classes and their returns are listed below:

	Q2	June 2017	YTD
Corporate	2.42%	0.25%	3.88%
Treasuries	1.22%	-.15%	1.92%
Mortgages	0.90%	-.38%	1.37%
High Yield	2.16%	0.10%	4.93%
Municipal	1.98%	-.23%	3.40%
2-year Treasury	0.12%	-.08%	0.35%
10-year Treasury	1.29%	-.74%	2.08%
30-year Treasury	4.21%	0.59%	5.53%

As we get through another quarter of positive returns for the bond market in general, June is a reminder that we believe we are in a rising rate environment, which is historically not good for bonds. Recent comments from central bankers and reflationary signs from Europe resulted in a quick, painful 15 basis point jump in the 10-year yield. Economic data due in the next few weeks may point to a stronger economy, which is not favorable for continued positive returns. The power of income coupon in total return will be evident for the remainder of the year.

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