

MANAGER COMMENTARY

FIXED INCOME



GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY Third Quarter 2018

Patrick Morrissey

Managing Director - Senior
Portfolio Manager,
Head of Fixed Income

Nancy Studenroth

Managing Director,
Senior Portfolio Manager

Brian Schuster, MBA

Senior Portfolio Manager

David Kopp

Director, Portfolio Manager

Richard Rokus, CFA

Managing Director

MARKET REVIEW

The spread in yield between corporate bonds and treasury bonds continued to tighten in the third quarter, nearing the recent lows set in 2014. Both corporate and high yield spreads tightened, with IG and High Yield in high demand, supported by solid technical factors the market uses to measure corporate risk.

Strong earnings have led to improving credit metrics and stock buy-backs and dividend increases have slowed as many issuers are focusing on reducing leverage. The new issue market, while still active, is less robust than in previous quarters, so activity in the secondary market has increased markedly, which in turn, drove spreads tighter.

Interest rates on treasuries continued to rise as safe haven demand dropped. Expectations of another rate hike in the fourth quarter are now about 69%, much higher than previously implied a month earlier.

SECTOR HIGHLIGHTS

Credit: The corporate market has been supported by generally improving credit measurements, a lower number of merger and acquisitions, and share buy-back funding. The Bloomberg Barclays Aggregate Index was up 2 basis points for the quarter, while the Intermediate Govt/Credit was up 21 basis points. The corporate index was also up by 97 basis points for the quarter.

Treasuries: The Fed raised rates in September as expected, with another hike likely in December. The curve remains extremely flat from 10-year to 30-year treasury notes, at 14 basis points. The short end of the curve continues to move up, with yields on the 2-year note now at 2.82%, up 29 basis points for the period. With that move, the yield on the 2-year treasury is 88% of the yield on the long end.

MBS: Mortgages underperformed in the third quarter as the selloff in rates continued. The weighted average coupon on new production pools has introduced deterioration into TBA deliverables, which in turn, has supported the specified pool market. Over the quarter, higher coupons and 15-year paper outperformed current coupon 30-year bonds.

ABS: Consumer asset backed securities turned in another positive quarter returning 49 bps and 52 bps year to date. ABS supply year to date is \$180 billion with 47% of new issue in the private placement 144A bucket. Short amortizing assets have performed well in the rising rate environment.

Municipals: Munis fell in line with the rest of the bond market, with 10-year AAA yields moving up about 20 basis points for the quarter. The short end of the market fared much worse, with yields - which had been rich on a relative basis - backing up 85 basis points. Fund flows out of muni funds drove sales from fund managers, and reduced demand from previously big muni bond supporters (banks and insurance companies) set the stage for a correction in what were abnormally low yield ratios versus taxable bonds. The 1-10 yr blend was down 50 basis points, while the 3-15 yr blend was down 59 basis points.

Yield Curve: The curve remains flat from 10-year to 30-year notes at 14 basis points, but yields are up across the board. The biggest move is on the short end, with yields up 36 basis points on the 1-year note, 2-year up 29 bps, 10-year up 20 bps, and 30-year up 21 bps. The expected rate hike in December seems to be baked into the short end of the curve as we flirt with a curve inversion. One month bills yield 2.11%, while 6-month notes yield only 25 basis points more at 2.36%.



INDEX RETURNS FOR THE PERIOD ENDING SEPTEMBER 30, 2018

	Q3 2018	YTD
BB Aggregate	0.02%	-1.60%
Corporate	0.97%	-2.33%
Treasuries	-0.59%	-1.67%
ABS	0.49%	0.52%
Mortgages	-0.12%	-1.07%
High Yield	2.40%	2.57%
Municipal	-0.15%	-0.40%
2-year Treasury	0.14%	0.12%
10-year Treasury	-1.09%	-3.73%
30-year Treasury	-3.27%	-6.55%

MARKET OUTLOOK

We still believe that the yield curve will continue to remain flat and the Fed will continue to raise short rates. We are also concerned that we will begin to see spreads widen. Remaining consistent with our previous tactical approach, we are keeping durations short to the benchmarks, and will continue our overweight of the short end of the curve, using defensive assets such as ABS, munis, floating rate securities, and short corporate bonds.

***For more information, please contact us at:
marketing@greatlakesadvisors.com or 312-553-3700***

Great Lakes Advisors, LLC ("Great Lakes" or "GLA") is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Established in 1981, Great Lakes is a subsidiary of Wintrust Financial Corporation and a part of the Wintrust Wealth Management family of companies. On October 1, 2013, majority owned subsidiary Advanced Investment Partners, LLC ("AIP") became fully-owned and integrated into Great Lakes. Great Lakes is a distinct business unit with distinct investment processes and procedures relating to the management and/or trading of investment portfolios for its clients.

Great Lakes Advisors, LLC claims compliance with the Global Investment Performance Standards (GIPS®). A complete list of firm composites and performance results, and the policies for valuing portfolios, calculating performance, and preparing GIPS compliant presentations are available upon request. Great Lakes Advisors, LLC's fees are available upon request and may be found in our Form ADV Part 2A. Performance data quoted herein represents past performance. Past performance does not guarantee or indicate future results. Returns and net asset value will fluctuate.

Manager commentary represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice. To determine if this strategy is appropriate for you, carefully consider the investment objectives, risk factors, and expenses before investing. The holdings, industry sectors, and asset allocation are presented to illustrate examples of the securities bought and the diversity of areas in which we may invest, and may not be representative of current or future investments. Portfolio holdings subject to change and should not be considered investment advice. The specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients and it should not be assumed that investments in the securities identified and discussed were or will be profitable. To obtain a list of all securities recommended during the past year, contact Great Lakes Advisors (GLA) at 312.553.3700.

The index performance figures are calculated in U.S. dollars and reported on a gross basis. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Fees, including but not limited to the advisory fee, transaction and custody charges, would reduce the return. Investors cannot invest directly in an index. These indexes are not managed or sold by Great Lakes Advisors.

Use of names and/or logos referenced in this piece was obtained with permission from parties mentioned therein. Opinions and estimates offered constitute our judgement and, along with other portfolio data, are subject to change without prior notice. The views expressed are for general information only and are not intended to provide specific advice or recommendations. The information contained herein has been obtained from sources believed to be reliable. GLA does not represent that it is accurate or complete, and it should not be relied on as such. Actual clients' portfolios may or may not hold the same securities depending on the guidelines, restrictions and other factors of the specific portfolios.

Past performance is not indicative of future results. ©2018 Great Lakes Advisors 18-6-0054