

Commentary

Key US fixed income indexes declined during the quarter, as interest rates rose, credit spreads widened and bond yields hit four-year highs across the maturity spectrum. Municipal bonds followed the broader market, despite expectations for a positive start to the year, which were fueled by a lack of supply and still-solid demand. Credit remained on a downward trend as state and local municipalities continued to struggle to meet long-term pension debts. Shorter maturity, lower-rated bonds outperformed as yields sold off across the yield curve. Additionally, higher-credit-quality (AAA- and AA-rated) bonds underperformed during the quarter relative to lower-quality (BBB-rated) bonds.

Within the NewSquare Individual Tax-Exempt Bond Strategy, exposure to shorter-maturity bonds helped performance relative to the benchmark¹, particularly pre-refunded and/or escrowed-to-maturity bonds. While we remain invested across the yield curve, a bias towards slightly longer-maturity bonds was the main detractor during the quarter.

Outlook

We believe that municipal fixed income securities will continue to be a consistent driver of performance given the current market environment. We continue to focus on achieving a core yield advantage through structure (calls, puts, sinking funds, etc.) while not sacrificing credit quality. In our view, the best relative value exists in intermediate- to long-dated municipal bonds (eight to 15 years). We maintain a focus on revenue bonds as we believe they provide more credit stability moving forward.

Overall, we expect the municipal market to rebound, but generally expect more modest gains going forward. We are concerned that state and local general obligation debt will come under increased pressure, and we continue to see a “crowding out” effect in government budgets, many of which remain delayed or unbalanced.

Individual Tax-Exempt Bond Description

The NewSquare Individual Tax-Exempt Bond Strategy is a separately managed account bond portfolio for investors who seek a combination of long-term capital appreciation and tax-free income. The strategy aims for low volatility and enhanced risk-adjusted returns through duration positioning and security selection. The portfolio is built around a long-term, strategic allocation that typically includes investments in high-quality, investment-grade municipal bonds, which may be supplemented with taxable fixed income securities for diversification and/or to seek relative value opportunities.

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¹The Barclays 1-10 Year Municipal Bond Index, which comprises one- to 10-year maturity investment-grade municipal bonds.

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NewSquare Capital, LLC is a U.S. registered investment advisor specializing in global asset allocation strategies. The firm manages the NewSquare Portfolios, a proprietary family of investment strategies implemented primarily with ETFs. The NewSquare Portfolios include the Strategic Series, Macro Series, Relative Strength Series, Income Series, and Focused Series of investment strategies. All client assets are independently custodied with Charles Schwab or TD Ameritrade.

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In general the ETF-based NewSquare Portfolios seek to outperform their benchmarks by raising and lowering asset class exposures, fixed income sector or industry sector exposures, country exposures, currency exposures, and various alternative asset class exposures to anticipate relative price movements. To this end, the portfolios may utilize fixed income ETFs, U.S. equity ETFs, international ETFs, currency strategy ETFs, and alternative class ETFs (including real estate, commodities, hedge fund strategies, private equity strategies, and potentially others) to adjust exposures where appropriate. There are risks involved with investing in ETFs, including possible loss of money. Index-based ETFs are not actively managed. Actively managed ETFs do not necessarily seek to replicate the performance of a specified index. Both index-based and actively-managed ETFs are subject to risks similar to stocks, including those related to short selling and margin maintenance. Some NewSquare Portfolios invest directly in individual securities (typically stocks and bonds) that pursue more traditional strategies.

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