INDIVIDUAL TAXABLE BOND STRATEGY

NewSquare Capital

QUARTERLY COMMENTARY

1st Quarter • 2018

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. The US Federal Reserve (Fed) raised its benchmark interest rate to 1.50%-1.75% at the March Federal Open Market Committee (FOMC) and reiterated its projection for two more rate hikes in 2018. Fed Chair Powell downplayed concerns about accelerating inflation.

Relative to the benchmark[1], contributors to performance during the quarter included our overweight to high yield corporate bonds and our underweight to US Treasuries. Our overweight to mortgage-backed securities and investment-grade corporate bonds and our longer bond duration than the benchmark index all detracted, as credit spreads widened and US Treasury yields rose/prices fell in all maturities across the yield curve.

Individual Taxable Bond Description

The NewSquare Individual Taxable Bond Strategy is a separately managed account bond portfolio for investors who seek income and long-term capital appreciation. Our seasoned management team uses macroeconomic analysis to aim for low volatility and enhanced risk-adjusted returns through duration positioning, sector allocation and security selection. The portfolio is built around a long-term, strategic allocation that typically includes investments in high-quality, investment-grade corporate notes/bonds, mortgage-backed securities, federal agency securities and US Treasuries.

Outlook

The yield curve (10-year minus two-year maturities) continued to flatten during the quarter, finishing at +47 basis points. Although flattening is frequently a warning sign of future economic weakness, we believe this quarter's stemmed from a combination of rising short-term rate expectations, due to improving economic data, and well-anchored (that is, prices higher and yields lower) longer maturity yields, due in part to strong pension fund and foreign central bank demand.

We continue to favor investment-grade US corporate bonds and mortgage-backed securities over government bonds and have kept portfolio duration near, but slightly longer than, the benchmark's duration. We believe the yield curve flattening is likely to continue as we near the end of the current business cycle and approach an economic slowdown in the coming years.

In our view, bonds may not be unquestionably attractive at current yield levels, but tend to provide a stable source of income and act as a low-risk diversifier in balanced portfolios. We believe that bond yields are not likely to rise in a significant and lasting way until inflation turns markedly higher.

Please see important disclosure on page 2

[1] The Bloomberg Barclays Intermediate Government/Credit Index, which comprises one- to 10-year maturity investment-grade corporate notes/bonds, federal agency securities and US Treasuries.