

## Commentary

Most US fixed income indexes recorded flat to marginally positive returns during the quarter as yields broadly rose and the yield curve continued to flatten. Shorter-maturity yields rose more than their longer-maturity peers. The US Federal Reserve (Fed) raised its benchmark interest rate to 1.75%-2.00% at the June Federal Open Market Committee (FOMC) and upgraded its forecast for 2018 rates increases from three to four, plus three in 2019. In addition to rising Treasury yields, investment grade credit spreads widened due to fewer foreign buyers, rate volatility, and trade tensions.

Relative to the benchmark, contributors to performance during the quarter included our overweights to both high yield corporate bonds and mortgage-backed securities. During the quarter, we reduced our bond duration to below the benchmark's, and the Strategy benefitted in a rising rate environment. Our overweight to investment-grade corporate bonds detracted during the quarter, as credit spreads continued to widen due to trade tensions, interest rate volatility, and reduced demand from foreign buyers.

## Outlook

The yield curve, the difference between interest rates on short-term and long-term government bonds, continued to flatten, finishing the second quarter at +33 basis points. Although frequently a warning sign of potential economic weakness, we believe this year's flattening can be attributed to the combination of improving economic data and expectations for rising short-term rates, together with a trade tension-inspired flight to quality, which is keeping longer-term yields well-anchored—that is, with prices higher and yields lower.

We continue to favor investment-grade US corporate bonds and mortgage-backed securities over government bonds. We believe the yield curve flattening is likely to continue as we near the end of the current business cycle and approach a potential economic slowdown in the coming years. We shortened the Strategy's duration because our technical analysis model confirmed that the risk-reward tradeoff of holding a longer duration than the benchmark had become less compelling in this environment.

## 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.

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<sup>1</sup> 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.

Aside from that move, our fixed income outlook remains largely unchanged at this time. We continue to believe that the pace and magnitude of the rise in bond yields will likely be limited, that demand for bonds is likely to remain strong, and that inflation is likely to remain in check. Lastly, and perhaps most importantly, we believe the Fed will likely continue to be gradual in raising interest rates.

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