MORNING MARKET COMMENTARY: Anthony M. Saglimbene, Global Market Strategist

- **Quick Take**: U.S. futures are pointing to a slightly higher open; Europe is trading mostly higher; Asia ended lower overnight; West Texas Intermediate (WTI) oil trading at $64.11; 10-year U.S. Treasury yield at 2.57%.

- **Will Baby Boomers Eventually Derail Stock Market Gains?** With first quarter earnings season still kicking into high gear, U.S. stock markets trading near all-time highs, and a long holiday weekend in the forecast we thought we would take advantage of the short market lull to focus on a longer-term topic today.

- **In our opinion, one of the largest long-term macros facing the U.S. economy and markets is the aging of our population.** As older workers (i.e., Baby Boomers) leave the workforce for retirement, their departure may constrain labor force dynamics and offer some uncertainty to spending patterns. There could also be financial market implications as older investors could shift from “saving to enjoying,” and portfolios could become more conservative.

- However, the magnitude of this change and its ultimate effect on the economy/markets is tough to forecast. In our view, the effects are most likely to occur very slowly over time, and in fact, have already been happening.

- **As the first embedded BCA Research chart to the right highlights, Baby Boomers (generally those aged 55 to 73) own approximately 55% of U.S. equity market wealth, according to the Federal Reserve Survey of Consumer Finances.** As Baby Boomers increasingly exit the labor force and begin drawing down their accumulated savings, there are concerns global stock markets could see added selling pressure over time, which could, in turn, lower expected equity returns. We would caution investors in making wholesale changes to their portfolios based on this assertion, however. We note that this dynamic has already been occurring without material influence since the oldest Boomers first reached 65 in 2010.

- Though there is a case to be made for slower GDP growth longer-term due to slower population growth and aging populations, there are considerable potential offsets to be considered as well. We will save the economic implications for another time, but Japan, where the population has been declining in recent years, and the population has the highest average age in the developed world, is often noted as an extreme example of what the dynamics can mean. We stress, however, that the U.S. demographic situation is far from that of Japan.
• Income and spending patterns over the human lifecycle meanwhile are reasonably well understood. The embedded FactSet chart at right (which includes health care costs) shows that although income peaks for individuals in their late 40s through early 60s, consumption (i.e., spending) continues to rise well into their 90s (for those fortunate enough to live that long). The sharp increase in spending during a person’s later years is very likely related to health care expenditures. This long-term shift toward higher aggregate health care spending as baby boomers age is certainly no secret. It has been widely projected for many years. Nevertheless, higher aggregate revenues for a sector do not automatically translate into higher equity returns. New entrants to the market, rising costs, or government legislation are just a few of the factors that could overcome rising demand.

• From a market perspective, and back to where U.S. wealth is concentrated, it is unlikely that demographics alone would materially constrain stock market performance, in our view. As the third embedded BCA Research chart below colors, the top 10% of U.S. households control 84% of all stock market wealth in America. The bottom 50% of U.S. households control less than 1% of stock market wealth. We believe this is a significant point to remember when thinking about the impact of Baby Boomers and their influence on the stock market. Our position is, the ultra-wealthy, which control the majority of equity ownership in the U.S., may have very little need to adjust their portfolios (i.e., de-risk) much at all.

• Uncertainty about personal longevity, the desire to pass on wealth to future generations, and the need to maintain enough growth in the portfolio to manage expenses (such as rising health care costs) may all induce households to consume their wealth at a modest pace, according to BCA Research. Further, there is no significant evidence thus far that retirees are gradually decreasing equity allocation as they age. Meaning, risk tolerance may be more likely to determine overall equity allocations, outside of just age. If Baby Boomers believe they need to continue to grow their portfolios in retirement, which as a group in aggregate are not as well prepared for retirement as previous generations, then a significant decline in equity exposure would be less likely, in our view.
With that said, an aging population and increasing percentage of the U.S. demographic moving into retirement could have a modestly negative effect on equity prices over the long-term – an issue we are closely monitoring. Given current stock valuation levels (at the upper-end of long-term averages), equity investors could see a “demographic headwind” for returns over the longer-term versus historical precedent. In examining this situation, however, we believe it is too early to make portfolio adjustments related to this long-term dynamic.

U.S. equity markets are deep, and the multinational companies that dominate our markets have distinct advantages in diversifying their sales should domestic activity moderate. Ownership of U.S. equities is also globally diverse. Thus, stock prices are far beyond the whims of an aging local investor base. As the fourth BCA Research chart helps identify, foreign investment in the U.S. stock market sits above $7 trillion today, representing 27% of U.S. stock market wealth. Per BCA, if international demand for U.S. stocks increases in line with global ex-U.S. real GDP, this would add roughly $250 billion in demand for U.S. stocks over the next twenty years. In our view, this could help mitigate potential effects from older U.S. investors reducing their stock allocations. Additionally, BCA calculates that this figure is five times greater than the roughly $50 billion in annual net selling that could occur if all investors followed the simple rule of taking their age and subtracting it from 100 to determine their overall equity allocation.

In our view, it is difficult to game how Baby Boomers will manage their assets over the next few decades and its effects on the economy and markets. However, we are comfortable saying the aging of our population, though a factor that could slow stock gains modestly in future years, is not a factor that should ‘materially’ alter longer-term returns or cause investors to rethink well-diversified investment strategies.

Asia-Pacific: Asian equities finished lower on Thursday. According to The Wall Street Journal, the U.S. and China will continue their trade talks in a series of two face-to-face meetings scheduled for the week of April 29th and possibly the week of May 6th. U.S. Trade Representative Robert Lighthizer and other trade officials will travel to Beijing for the first meeting, while Chinese Vice Premier Liu He is scheduled to go to Washington for the second. The WSJ report also indicated that negotiations are aiming for a signing ceremony in late May or early June.

Europe: Markets across the region are trading higher at midday. Eurozone flash PMIs for April show that Europe is getting off to a slow start in Q2, but stabilizing nonetheless. Manufacturing PMI for the region in April moved higher to 47.8 from 47.5 in March. Services PMI, however, slipped to 52.5 this month from 53.3 previously. Consequently, composite PMI (includes both manufacturing and services) currently sits at a three-month low of 51.3 and down from 51.6 in March. We would note, that the composite level remains in expansion, with a solid pickup from Germany’s service sector, which helped offset weaker manufacturing activity. According to IHS Markit, if PMIs stay at current levels throughout Q2, GDP growth for the Eurozone could potentially come in below the +0.3% q/q consensus.

U.S.: Equity futures are pointing to a flattish open this morning. Today, at 9:30 am EST, Attorney General William Barr is scheduled to discuss special counsel Robert Mueller’s report on Russian interference in the 2016 election. A redacted report is also expected to be released to the public today, and according to The Washington Post, the Justice Department is expected to apply only light redactions. The report is expected to show that Robert Mueller and team decided they could not reach a conclusion on the question of obstruction of justice. Based on their assessment, investigators could not determine if President Trump’s intent was malicious/deceptive or his actions were innocent. As a result, it is unclear how much new information the public will learn from today’s report and the investigation into Russia’s efforts to interfere in the 2016 election. We do not expect much of a market impact from today’s Mueller report or Barr’s press conference.
• On a price basis, the S&P 500 Health Care Index is lower by 5.5% over the last week, down 6.7% over the previous month and has dropped almost 1.0% year-to-date. While Health Care has been a laggard all year, through last Friday, the Index was actually ‘up’ +3.8% YTD. The sudden turn lower in the sector has come from concerns about a Democratic push for a new federally funded health care program that would expand Medicare for all. Importantly, such a move could replace existing private health care insurance with a single payer system administered through the government. This could be highly disruptive for the sector and potentially change long-term growth and revenue trajectories for many health care companies. Per the WSJ, insurance providers have also come under pressure due to the Trump administration exploring whether healthcare providers should disclose unpublished prices they charge insurance companies for services. Drug providers and biotech firms have also seen increased selling pressure as of late based on proposals that would ban certain pharma rebates in Medicare.

• Combined with a cyclical rotation from defensive to growth, Health Care has been left in the dust this year. There is now a nearly 17% gap between the S&P 500 Index and Health Care Index based on year-to-date performance. According to FactSet, if this gap holds through the end of April, it would be only the second time since 2000 the sector has lagged by a margin this large in the first four months of the year. In our view, political headwinds could continue to ebb and flow for the sector, particularly as the 2020 election cycle kicks into high gear this summer. Nevertheless, rhetoric, proposals, and bills are not the same as laws, and over recent election cycles, Health Care has always been a hot-button issue for the electorate. Fundamentals in the sector are solid, and its defensive/growth properties make for an appealing overweight call in a market environment where uncertainty remains high. We will continue to monitor the sector closely but remain comfortable with an overweight call at this time.

### World Capital Markets

<table>
<thead>
<tr>
<th>Americas</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>-0.23%</td>
<td>16.4%</td>
<td>2,900.5</td>
</tr>
<tr>
<td>Dow Jones</td>
<td>-0.01%</td>
<td>14.7%</td>
<td>26,449.5</td>
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<tr>
<td>NASDAQ</td>
<td>-0.05%</td>
<td>20.8%</td>
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</tr>
<tr>
<td>Russell 2000</td>
<td>-0.96%</td>
<td>16.6%</td>
<td>1,587.6</td>
</tr>
<tr>
<td>Brazil Bovespa</td>
<td>-1.11%</td>
<td>6.1%</td>
<td>93,284.8</td>
</tr>
<tr>
<td>S&amp;P/TSX Comp. (Canada)</td>
<td>0.25%</td>
<td>16.5%</td>
<td>16,544.2</td>
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<td>Mexico IPC</td>
<td>1.15%</td>
<td>9.7%</td>
<td>45,525.3</td>
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<table>
<thead>
<tr>
<th>Europe (Intra-day)</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
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<tr>
<td>DJ Stoxx 50 (Europe)</td>
<td>0.57%</td>
<td>17.3%</td>
<td>3,497.5</td>
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<tr>
<td>FTSE 100 (Gbp)</td>
<td>-0.03%</td>
<td>12.6%</td>
<td>7,465.3</td>
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<tr>
<td>DAX Index (Germany)</td>
<td>0.4%</td>
<td>15.7%</td>
<td>12,202.9</td>
</tr>
<tr>
<td>CAC 40 (France)</td>
<td>0.4%</td>
<td>18.5%</td>
<td>5,585.1</td>
</tr>
<tr>
<td>FTSE MIB (Italy)</td>
<td>-0.1%</td>
<td>19.9%</td>
<td>21,979.0</td>
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<tr>
<td>IBEX 35 (Spain)</td>
<td>-0.1%</td>
<td>13.0%</td>
<td>9,538.6</td>
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<tr>
<td>Russia Ti</td>
<td>-0.5%</td>
<td>12.9%</td>
<td>4,587.8</td>
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Note: International market returns shown on a local currency basis. Equity index data is total return, inclusive of dividends.

### Developed International

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<tr>
<th>Developed International</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
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<tbody>
<tr>
<td>MSCI EAFE</td>
<td>0.12%</td>
<td>13.5%</td>
<td>1,928.1</td>
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### Emerging International

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<th>Emerging International</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>MSCI Emerging Mkts</td>
<td>0.26%</td>
<td>13.9%</td>
<td>1,096.4</td>
</tr>
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</table>

### Commodities

<table>
<thead>
<tr>
<th>Commodities</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>CBOT Corn (cents per bushel)</td>
<td>0.07%</td>
<td>-6.0%</td>
<td>367.3</td>
</tr>
<tr>
<td>CBOT Wheat (cents per bushel)</td>
<td>-0.89%</td>
<td>-13.9%</td>
<td>446.3</td>
</tr>
<tr>
<td>LME Copper (per ton)</td>
<td>1.05%</td>
<td>9.8%</td>
<td>6,537.0</td>
</tr>
<tr>
<td>LME Aluminum (per ton)</td>
<td>-0.19%</td>
<td>-1.5%</td>
<td>1,834.3</td>
</tr>
<tr>
<td>NYMEX Brent Crude (per bbl)</td>
<td>0.40%</td>
<td>33.6%</td>
<td>71.9</td>
</tr>
<tr>
<td>NYMEX Natural Gas (MMBtu)</td>
<td>-0.36%</td>
<td>-14.6%</td>
<td>2.5</td>
</tr>
</tbody>
</table>

### Exchange Rates

<table>
<thead>
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<th>Currency Pair</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro ($/€)</td>
<td>-0.4%</td>
<td>-1.9%</td>
<td>1.12</td>
</tr>
<tr>
<td>British Pound ($/£)</td>
<td>-0.2%</td>
<td>2.0%</td>
<td>1.30</td>
</tr>
<tr>
<td>Swiss Franc ($/CHF)</td>
<td>-0.1%</td>
<td>-2.9%</td>
<td>1.01</td>
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</table>

Data/Price Source: Bloomberg; Equity index data is total return, inclusive of dividends where applicable.
Before The Bell

ECONOMIC NEWS OUT TODAY:

<table>
<thead>
<tr>
<th>Time</th>
<th>Period</th>
<th>Release</th>
<th>Consensus Est.</th>
<th>Actual</th>
<th>Prior</th>
<th>Revised to</th>
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<td>8:30 AM</td>
<td>Apr 13</td>
<td>Initial Jobless Claims</td>
<td>210k</td>
<td>192k</td>
<td>196k</td>
<td>197k</td>
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<tr>
<td>8:30 AM</td>
<td>Apr 6</td>
<td>Continuing Claims</td>
<td>1735k</td>
<td>1653k</td>
<td>1713k</td>
<td>1716k</td>
</tr>
<tr>
<td>8:30 AM</td>
<td>MAR</td>
<td>Retail Sales (MoM)</td>
<td>+1.0%</td>
<td>+1.6%</td>
<td>-0.1%</td>
<td></td>
</tr>
<tr>
<td>8:30 AM</td>
<td>MAR</td>
<td>Retail Sales - ex. autos (MoM)</td>
<td>+0.7%</td>
<td>+1.2%</td>
<td>+0.1%</td>
<td></td>
</tr>
<tr>
<td>8:30 AM</td>
<td>MAR</td>
<td>Retail Sales - ex. autos and gas (MoM)</td>
<td>+0.4%</td>
<td>+0.9%</td>
<td>+1.9%</td>
<td></td>
</tr>
<tr>
<td>8:30 AM</td>
<td>APR</td>
<td>Philly Fed. Manufacturing Index</td>
<td>11.0</td>
<td>8.5</td>
<td>13.7</td>
<td></td>
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<tr>
<td>10:00 AM</td>
<td>MAR</td>
<td>Leading Economic Indicators</td>
<td>+0.4%</td>
<td>+0.2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Economic Perspective: **Russell T. Price, CFA – Chief Economist**

- **Solid economic data across the board this morning as retail sales show their strongest month-over-month increase since September 2017 (+2.0%) and initial claims remain at generational lows (lowest levels since the late 1960’s). The Philly Fed Index, however, came-in modestly below expectations but still evidenced a solid pace of month-over-month expansion with improvements in the pace of New Orders, Employment and Average Workweek.**

- **Retail sales exhibit a very solid bounce in March.** Retail sales exhibited a very strong rebound in the month of March and there was a further upside revision to the data for January (February results were unchanged). The modest upward revision for January (to +0.8% from a prior +0.7%) is important as the month was originally reported as showing a gain of just 0.2% after a sharp 1.6% decline in December. Although the number was previously revised notably higher, we believe the initial report continued to influence market perceptions of a weakening in U.S. economic activity. A narrative that we have long believed to be false, or at least not a new trend.

- **March retail sales strong nearly across the board.** Although retail activity was broadly solid in March, the very strong gain in headline number was heavily fueled by higher gasoline prices and a rebound in auto sales. Remember that retail sales are reported on a nominal basis, so simple price swings in the cost of gasoline can play a notable role at times. This was the case in March as rising crude oil prices pushed national average gasoline prices about 9% higher...
versus February levels, against a normal seasonal rise for the month of about 4% (both numbers based on data from the Energy Information Administration). As such, gasoline sales jumped 3.5% in the month but were still just 2.5% higher versus year-ago levels (gasoline sales are the only segment of retail sales where it is usually good to see soft year-over-year gains).

• New auto sales also rebounded to a seasonally adjusted annualized sales rate (SAAR) of 17.5 million units versus the 16.65 average pace seen in January and February. As such, the total dollar value of auto sales (including used vehicle sales and parts) jumped 3.1% in March. Even after excluding autos and gasoline, retail sales were still a strong 0.9% higher in the month.

• On a year-over-year basis, total retail sales, sales excluding autos, and sales excluding autos and gas, were all 3.6% higher. As seen in the chart at right, sales have experienced a dip recently, but such results should also be considered against the very strong results seen previously. Previous growth rates were unsustainable in our view, while recent trends are also likely weaker that the long-term trend in consumer activity can achieve, in our view.

• Overall, we believe the recent lull in retail will very likely prove temporary in the longer-term trend. There were a number of factors that influenced consumer behavior over the period (government shutdown, delayed tax refunds, late Easter and the fourth quarter stock market swoon), none of which were fundamental, such as declining incomes, a deteriorating job market or elevated debt burdens.

• We continue to see consumer fundamentals as very strong and supportive of the economic outlook. The job market remains very strong, incomes are growing at a healthy pace, the savings rate is relatively high, inflation is reasonable, and debt levels remain very manageable relative to income.

**FIXED INCOME NEWS & VIEWS:** Brian M. Erickson, CFA, Fixed Income Research & Strategy

Please note: Bond markets (as well as equity markets) are closed tomorrow for the Good Friday holiday. FINRA also recommends a 2:00 PM ET early close for bond trading today as well.

**Corporate Bond Spreads Tighten Through 2018 Average Levels; Buyers Much More Selective**

• Corporate credit markets have certainly evolved since mid-2018. After the year-end sell-off and no new issue high yield debt deals in the month of December, we see investors buying much more selectively. Corporate trading volumes picked up according to FINRA TRACE data in January and February as buyers bought corporate debt at sale prices compared to most of 2018. In March and into April volumes settled lower with spreads on both U.S. Investment Grade Corporates and U.S. High Yield Corporates tightened through 2018 average levels last week. Larger deal sizes where secondary liquidity may be easier to sell if needed is the latest trend we picked up on. Though investors are once again actively buying, they are planning ahead and cautious. Liquidity and what sectors or credits are likely to out-perform should we see a repeat of last year’s year-end credit pinch.

• On a total return basis high yield segments provided a mid-8% year to date return; roughly level from the Ba-rated segment down through Caa-rated bonds within the Bloomberg Barclays U.S. High Yield Index. This suggests that higher rated junk debt outperformed on a risk adjusted basis and indicates a level of selectivity so far this year. We take note of this trend and contrast it with trends we may have seen in the wake of past sell-offs where the lowest rated segments snap back more quickly. We believe fixed income investor are more selective at this point in the credit cycle, both around what they are buying and what they avoid.

• At its core, this indicates that investor sentiment around the global economy’s ability to sustain growth may have reset lower, potentially providing less enthusiasm if conditions improve, and even greater caution should credit spreads
gap out once again. We highlight the change to guide investors to evolve the strategies around how to select fixed income investments at this point the cycle. For more perspective on how to approach corporate credit, see our recent report Corporate Debt Markets Evolve dated April 5.

- We anticipate the pace of economic activity in China and the U.S. likely steadies after a soft Q1 and that enthusiasm ultimately washes through the lower quality as well. We see today and the months ahead as a great opportunity to exit fixed income positions that investors would not want to own through the cycle. This particularly applies to clients with a long-term approach to investing that only fine-tune portfolios once or twice a year. Now is the time to rotate out of risk and into higher quality core fixed income if you have not already done so. We recommend aligning with our asset allocation guidance toward shoring up core fixed income positions and considering active management for high yield, which provides a more selective approach.

**Recent U.S. Treasury Yields**
Compared to 2018 Highs on November 8

![Recent U.S. Treasury Yields Chart]

**10-Year and 30-Year Treasury Yields**

![10-Year and 30-Year Treasury Yields Chart]

**Bloomberg Barclay's Index Credit Spreads**
Option adjusted spread (OAS), in basis points

![Bloomberg Barclay's Index Credit Spreads Chart]

**Bloomberg Barclay's Index Credit Spreads**
Option adjusted spread (OAS), in percent

![Bloomberg Barclay's Index Credit Spreads Chart]

Source: Bloomberg L.P., Bloomberg Barclays Indices

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Before The Bell

Ameriprise Investment Research Group

Ameriprise Financial
1441 West Long Lake Road, Suite 250, Troy, MI 48098
investment.research.group@ampf.com
For additional information or to locate your nearest branch office, visit ameriprise.com

RESEARCH & DUE DILIGENCE LEADER
Lyle B. Schonberger - Vice President

Business Unit Compliance Liaison (BUCL)
Kirk D. Dedenbach – Senior Manager
Jeff Carlson, CLU, ChFC – Manager

Investment Research Coordinator
Kimberly K. Shores

Sr. Administrative Assistant
Jillian Willis

EQUITY RESEARCH
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Asset Allocation
Daniel Balter, CFA – Analyst – Quantitative, Asset Allocation
Gaurav Sawhney – Research Analyst
Amit Tiwari – Sr. Research Associate

CHIEF ECONOMIST
Russell T. Price, CFA – Vice President

MANAGER RESEARCH
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Fixed Income & Alternatives
Jay C. Untiedt, CFA, CAIA – Senior Director – Alternatives
Steven T. Pope, CFA, CFP® – Director – Non-Core Fixed Income
Douglas D. Noah – Analyst – Core Taxable & Tax-Exempt Fixed Income
Blake Hockert – Associate – Reporting & Analytics

FIXED INCOME RESEARCH & STRATEGY
Fixed Income Research
Brian M. Erickson, CFA – Vice President

High Yield and Investment Grade Credit
Jon Kyle Cartwright – Sr Director
Stephen Tufo – Director, Credit Analyst

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**As of March 31, 2019**

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Non-Investment grade securities, commonly known as “high-yield” or “junk” bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

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Agency – Agency bonds are issued by Government Sponsored Enterprises (GSE), but are NOT direct obligations of the U.S. government. Common GSE’s are the Federal Home Loan Mortgage Corp. (Freddie Mac) Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Bank (FHLB).

Beta: A measure of the risk arising from exposure to general market movements as opposed to company-specific factors. Betas in this report, unless otherwise noted, use the S&P 500 as the market benchmark and result from calculations over historic periods. A beta below 1.0, for example, can suggest the equity has tended to move with lower volatility than the broader market or, due to company-specific factors, has had higher volatility but generally low correlations with the overall market.

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Price/Earnings: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters’ earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters’ EPS.

Price/Sales: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by the company’s sales per share over the most recent year.
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