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Third Quarter Fixed Income Letter to Clients

In the third quarter, US Treasury bond prices had another big move up. The 10-year US Treasury yield continued to fall sharply with the quarter's closing yield at 1.68%, down from 2.00%. The expectation for the Federal Reserve is that there is an almost 90% probability that they will lower rates at the October 30th meeting.

The US economy continues to create jobs, inflation remains under control, and credit spreads are operating as if there isn't anything to worry about. On the other hand, a dramatic escalation in the trade war, global growth concerns and an inverted yield curve renewed fears of a slowdown in the US. That said, we believe the US economic expansion will continue, supported by solid consumption trends, a healthy job market and plenty of stimulus from the Fed.

Our current strategy for Fixed Income investors is to own a diversified portfolio of high-quality, investment grade bonds maturing in one to ten years. Our client's portfolios are designed to earn optimal after-tax return while maintaining a relatively defensive portfolio structure given today's interest rate environment. Of course each client has a unique set of circumstances that we focus on in order to customize the portfolio towards meeting their goals and investment objectives. Tax-free income, preservation of principal and targeted duration management is what makes a municipal bond portfolio an attractive investment for clients in a high tax bracket. The Tax-Free Municipal Bond benchmark index ended the quarter with a positive return year to date of 7.22%.

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Fixed Income Portfolio Manager