The global economy and, by extension, financial markets are traversing a unique period delineated by the health pandemic. Pre-Covid the global economy was in stable, if unremarkable, shape. The pandemic changed everyone's calculus and thrust global fiscal and monetary authorities into action. A year and 4 months later financial markets reversed early losses and reached valuation levels many believe to be excessive and unsustainable.

Supportive of the state of markets are the robust financial results achieved by most private sector companies and an abundance of personal savings built up during the lockdowns. More concerning is the role $6 trillion in fiscal stimulus, 0% policy rates and trillions in quantitative easing played in asset appreciation.

We believe the economy is resilient enough to stand on its own. The Fed has indicated its accommodative stance will continue into 2022, but recent messaging from Board members suggests QE tapering may commence earlier. In the meantime, the federal government is discussing trillions in additional spending. Putting it all together, we believe the levels of government debt are and will be an economic impediment as the Fed moves to taper. Furthermore, the distortions (especially labor) caused by the pandemic will likely engender more inflationary traction than currently priced into government bond yields. Because of this, we believe the ultimate trajectory of interest rates is higher.

However, the interplay between global markets remains as fluid as before the pandemic, which implies U.S. interest rates will likely remain low while Euro and Yen rates are negative. Also, there are concerns the upward momentum of the equity markets is stalling and some fear there could be a correction which is restoring demand for government bonds. Therefore, it appears likely interest rates will remain low and relatively stable well into 2022.

Market Opportunities

Based on the forgoing, we believe fixed income markets will be in a lower return, but relatively stable environment. Creditworthiness has improved and will likely remain healthy for a few years as companies reduced their financing costs and built large cash hoards. Emerging markets have been behind western nations in controlling infections and applying vaccinations. Still, global demand lifted commodity prices which cushioned the damage from the virus. Putting our outlook and market conditions together, we believe the following opportunities exist in the strategies we manage:

- *Core Plus* – This is a broad market strategy that generates excess return through credit selection. The Composite has a yield of nearly 2.2% with a 6.3-year duration. While this yield is low by historical standards, it is attractive relative to government bonds and compares favorably to the Bloomberg Barclays Aggregate Index. Currently, the strategy is positioned to benefit from positive "carry" with holdings across investment grade, high yield, and emerging markets bonds. Also, should equity markets correct, this portfolio should provide some offset.

- *Short Duration* – We manage a short duration laddered strategy that has a 1.3 to 1.5 year duration and a yield that exceeds cash. As structured, the strategy can be used as a cash alternative because it holds over 60% in U.S. treasuries. The duration protects against higher rates and a steepening of the curve, and the liquidity offers the option to redeploy assets quickly if there is a broad market correction. Also, the holdings can be skewed more toward credit to earn a modestly higher yield.
- *Global High Yield Credit and Emerging Market Corporate Debt* – We manage portfolios in both high yield and emerging markets credit. Both of these sectors offer interesting relative return opportunities in the current market, but they are valued at the tight end of their historical ranges. Given our outlook and the markets' current valuations, these strategies may be good alternatives once the tapering has begun and/or we have experienced an equity market correction.
- *Customized Credit* – We can build customized alternatives by drawing on elements of a strategy that takes advantage of market dislocations to assemble a portfolio. The strategy can begin as a short duration, highly liquid portfolio that would have the ability to move into higher yielding opportunities should they materialize due to a market correction or other short-term dislocations.

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GIA Partners, LLC

At GIA Partners, credit is in our DNA. We are a bottom-up credit manager who has managed credit portfolios in virtually every part of the world's fixed income markets as well as through some of the most severe credit events in history. Additionally, our investment team has the distinction of being among the first to recognize and actively invest in global high yield and emerging markets debt.

We have a thorough understanding of fixed income investments and their role in a globally diversified portfolio, which has rewarded our clients throughout market cycles.

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