The Education Liquidity Fund

powered by Miles Capital

THE EDUCATION LIQUIDITY FUND LETTER

APRIL 2018

POLICY MOVES & VOLATILITY TAKE CENTER STAGE

"The first three months of the New Year was characterized by more volatility than we've experienced in years. While the fixed income markets didn't escape the volatility, the bond market reaction was more muted, which is expected from an asset class that should provide more focus on stability and preservation of capital. Nevertheless, many fixed income sectors ended the quarter with negative total returns due to the rapid increase in interest rates during the first few weeks of the year.

Interest rates, as measured by the 10 year U.S Treasury note, rose over 0.50 percent intra quarter before settling at 2.74 percent at the end of the quarter, the highest level in four years. Shorter term rates, as measured by the 2 year U.S Treasury note, rose even faster ending at 2.27 percent, nearly a ten year high. The difference between the 10 year and 2 year Treasury rate dropped below 0.50 percent, levels not seen in over a decade. We believe the flattening interest rate curve will continue at a slower pace over the next few quarters.

Driving the higher rates was the passage of major fiscal policies over the past few months including the tax bill and the federal spending bill. While these policies are likely to be positive for the economy near term, the long term ramifications are more uncertain and should add to higher government deficit spending and future inflation which puts additional upward pressure on interest rates. The stronger economic prospects also prompted the Federal Reserve (Fed) to follow its plan and raise rates a quarter point in March, its fifth increase since late 2016.

The Bloomberg Barclay's Aggregate index, a broad measure of the investment grade U.S. bond market, lost 1.46 percent for the quarter. Most major spread sectors including corporate, municipal, and mortgage backed bonds all underperformed similar duration U.S. Treasury securities for the quarter. Lower quality assets underperformed higher quality and longer duration underperformed shorter duration securities. The moderate increase in inflation expectations over the quarter contributed to the outperformance of inflation linked securities.

A solid U.S. economic backdrop will continue to support strong fundamentals across many fixed income market segments. However, those same forces should also promote higher inflation and a Fed that continues to raise rates perhaps 2-3 more times in 2018.

Volatility is expected to remain at elevated levels given new uncertainty surrounding trade policies as well as other global challenges. Given this outlook, fixed income investors should expect lower returns for the balance of 2018 relative to the past few years."

DOUG EARNEY, CFA
Director, Fixed Income
(515) 224-2703 | dearney@miles-capital.com

EVENTS

June 15
ISFIS Conference

July 18-20
IACCT Annual Conference

HOLIDAYS

May 28
Memorial Day

July 4
Independence Day

September 3
Labor Day

PROFESSIONALS

ANITA TRACY
Senior Fund Services Administrator

DOUG EARNEY, CFA
Fixed IncomeTELF Portfolio Manager

AMY MITCHELL
Director, Public Fund Services

GWEN GOSSELINK
Chief Compliance Officer

PARTNERS & SPONSORS

Iowa Association of School Business Officials

IACCT