TELF
The Education Liquidity Fund

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THE EDUCATION LIQUIDITY FUND LETTER

SEPTEMBER 2018

FED STAYS THE COURSE AND BOND MARKETS REMAIN RESILIENT

"A host of important events during the third quarter that pushed and pulled the U.S. bond markets in different directions. Trade and tariffs, a Federal Reserve (Fed) rate increase, moderately rising inflation, strong corporate earnings, and emerging market turmoil were just a few of the stories market participants deliberated on over the past few months. As in previous years, the markets mostly brushed off these potentially disruptive issues and drove riskier assets higher for the quarter. A key driver of absolute performance in the fixed income market was increasing interest rates across the curve.

Investors spent much of the quarter focused on the continued strength of the U.S. economy, as demonstrated by the robust GDP reports, unemployment and corporate earnings. In response, the Fed continued its gradual pace and increased interest rates ¼ of a percent in September. A December rate increase looks likely making it the fourth increase in 2018.

Interest rates, as measured by the 10 year U.S Treasury note, trended higher for the quarter and ended September near the highs of the year at 3.06 percent, 0.20 percent higher for the quarter and over 0.60 percent higher for the year. Shorter-term rates, as measured by the 2 year U.S Treasury note, continued their march higher over the quarter and ended at 2.82 percent, up nearly a full percent since the beginning of the year. The difference between the 10 year and 2 year yields has shrunk to levels not seen since 2007, resulting in a very flat interest rate curve.

Within the fixed income markets, sector performance was largely positive on a relative basis to U.S Treasuries, generally considered the most liquid and safest asset. The Bloomberg Barclay's Aggregate index, a broad measure of the investment grade U.S. bond market, was essentially flat for the quarter but is still down 1.6 percent year to date. Most major spread sectors including corporate, municipal, mortgage, and agency bonds all outperformed similar duration U.S. Treasury securities for the quarter. Within the investment grade corporate sectors, lower quality assets outperformed higher quality and longer duration outperformed shorter duration securities.

As we look forward, we believe the solid economic footing should provide reason for the Fed to continue its gradual pace of rate increase into 2019. We also expect this growth to gradually drive longer term rates higher resulting in higher income opportunities but limited absolute return potential for most fixed income assets. Risks to our forecast include a more disruptive trade and tariff war, a global equity market correction, or more stress appearing in emerging markets. "

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EVENTS

October 31
IASBO Fall Conference

HOLIDAYS

November 12
Veterans Day

November 22
Thanksgiving Day

December 25
Christmas Day

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