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Fixed Income Market Outlook

December 2, 2016



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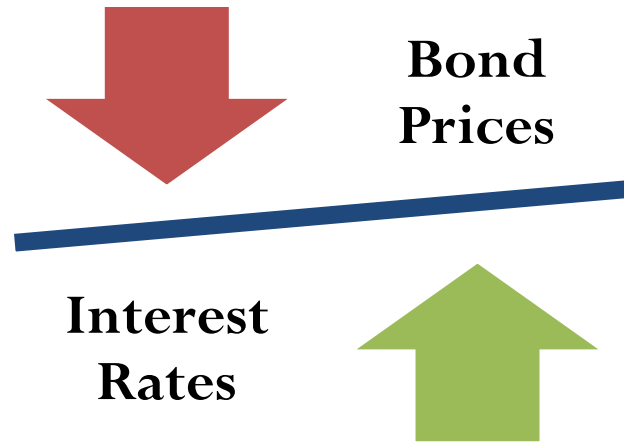


Understanding Risks

- All investments carry some degree of risk, which is linked to the return that investment will provide.
- A good rule of thumb is the higher the risk, the higher the return.
- Two types of Risk related to fixed income:
 - **Interest Rate Risk**
 - **Credit Risk**

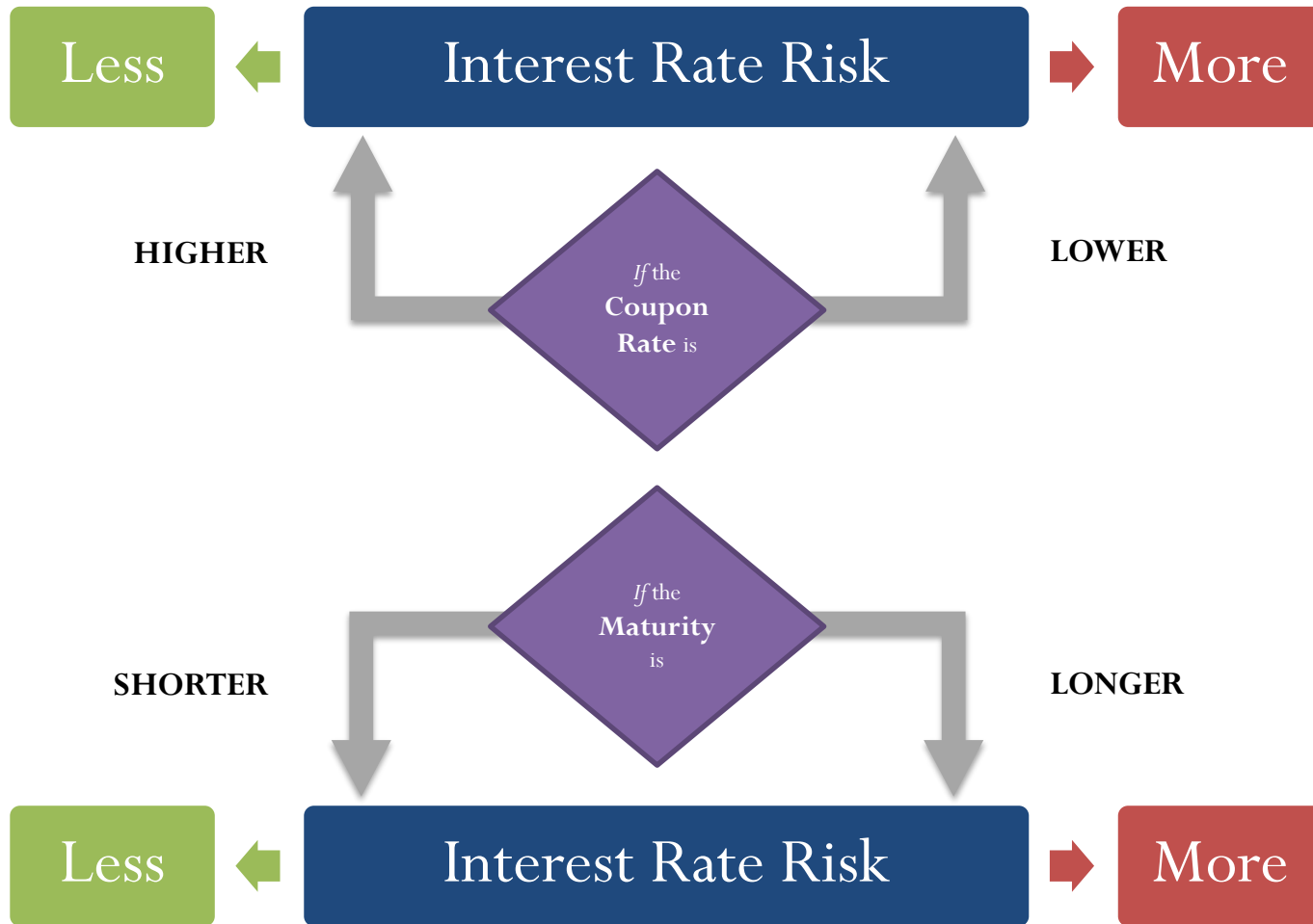
Interest Rate Risk

- Interest rates and bond prices are like a see-saw – when interest rates rise, bond prices fall (and vice versa).



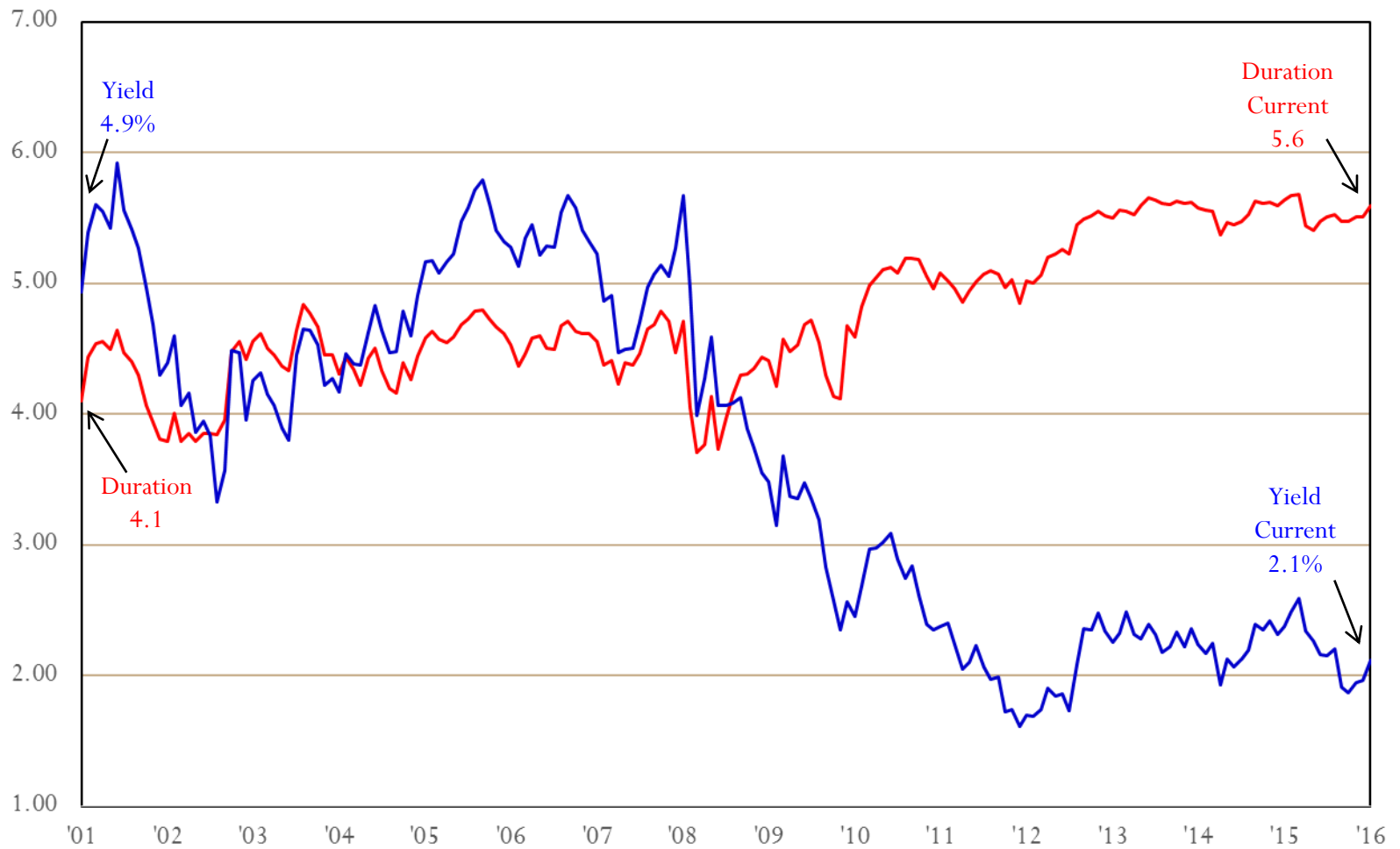
- How much interest risk a bond has depends on how sensitive its price is to interest rate changes.
- **Duration** is a measure of the sensitivity of price change to interest rate changes.

Interest Rate Risk



Interest Rate Risk

U.S. Aggregate Index

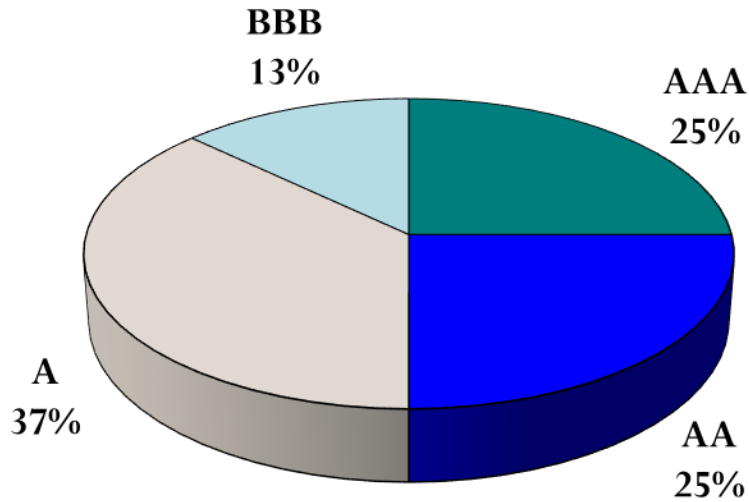


Credit Risk

- The risk that a borrower will default on any type of debt by failing to make payments which it is obligated to do.
- Credit risks are calculated based on the borrower's overall ability to repay.
- Ratings agencies such as S&P, Moody's, and Fitch evaluate the credit risks of thousands of issuers on an ongoing basis.

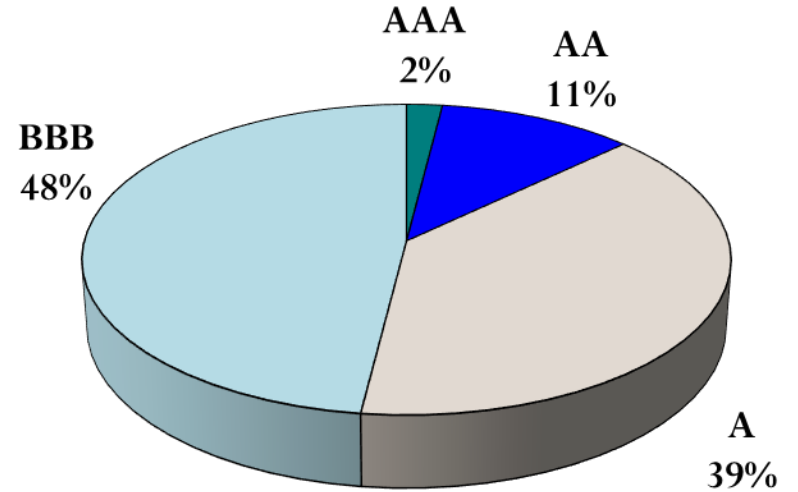
Credit Risk

1980



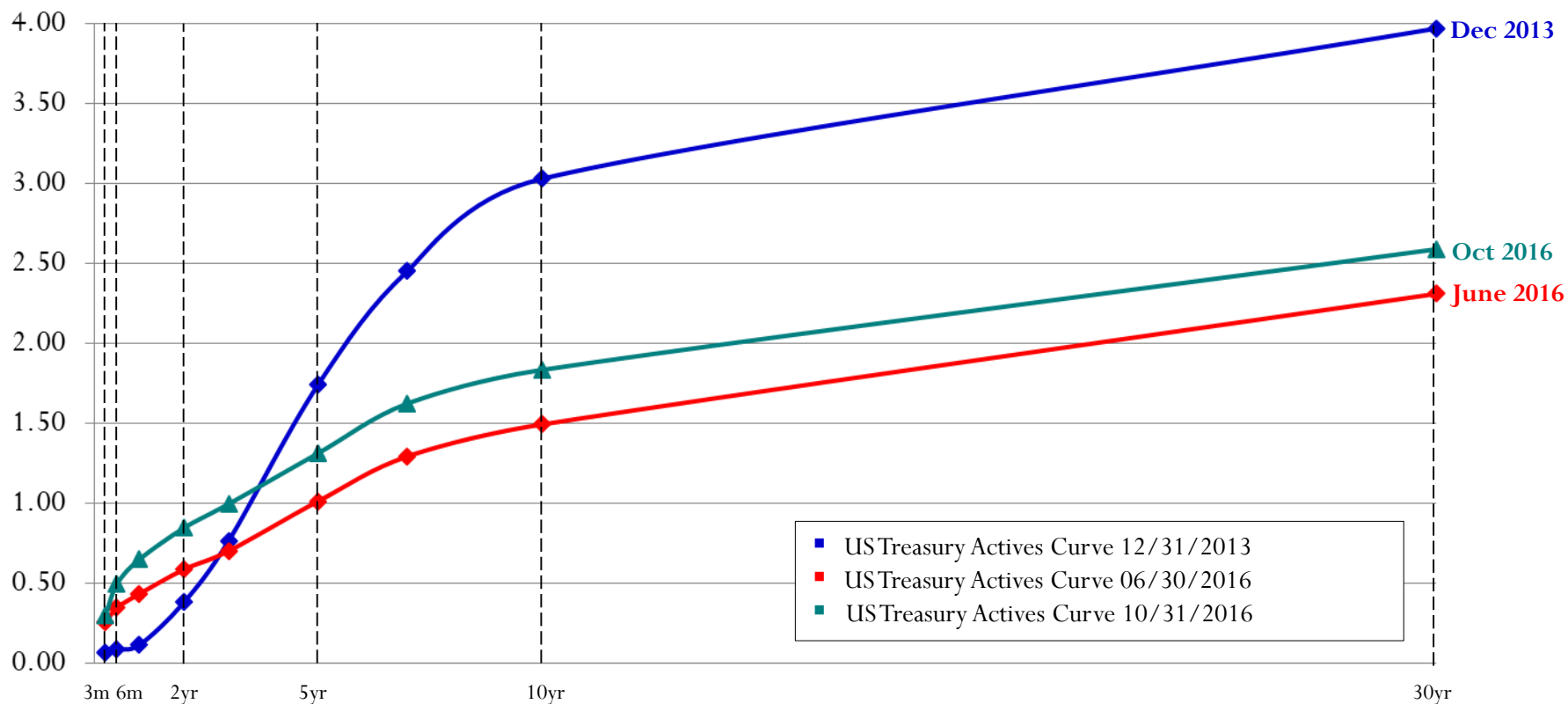
\$178 Billion

Today



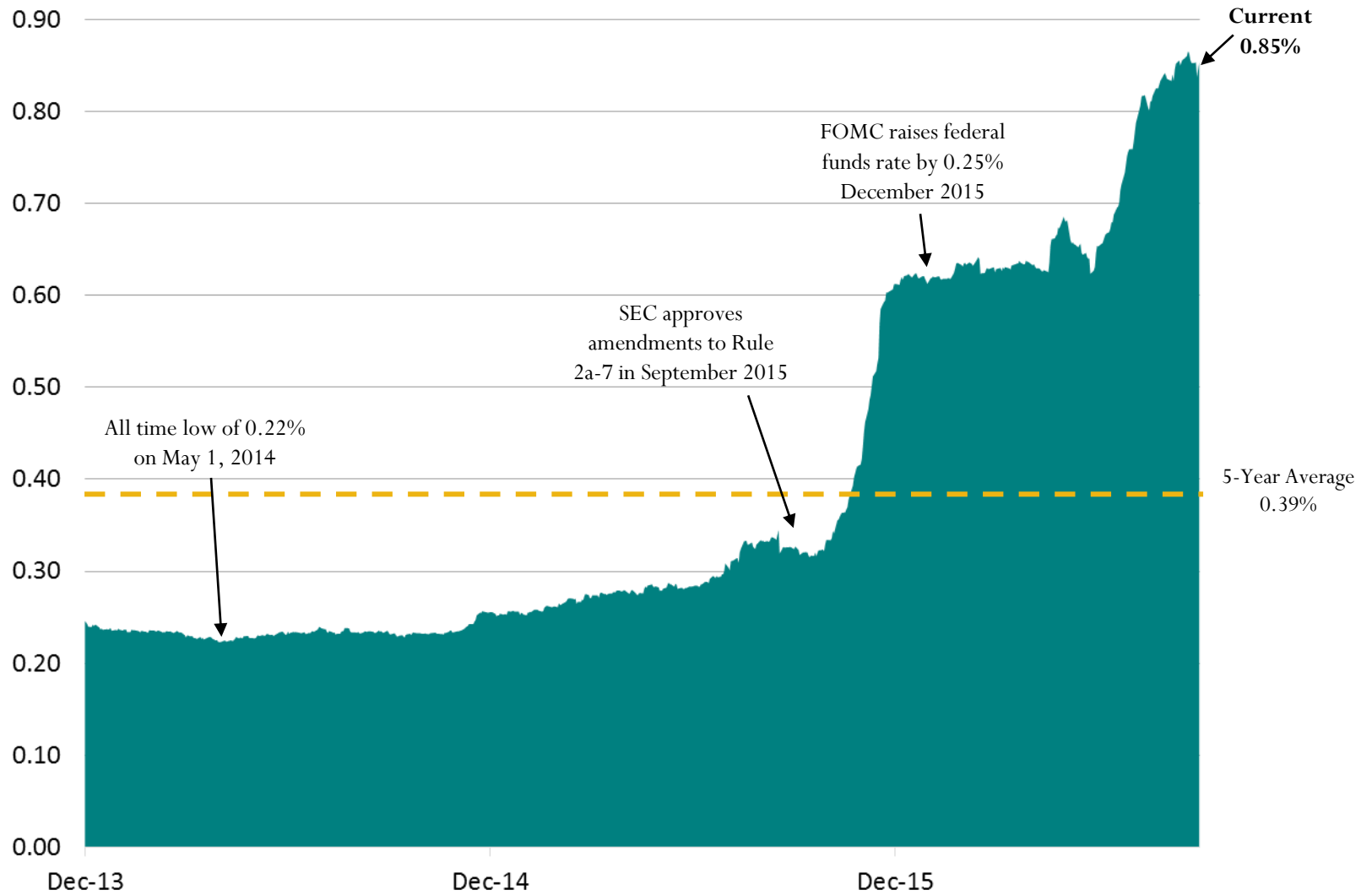
\$5.1 Trillion

Interest Rate Environment



	12/31/13	06/30/2016	10/31/2016
3 Month	0.07	0.25	0.30
6 Month	0.09	0.35	0.49
2 Year	0.38	0.59	0.85
5 Year	1.74	1.01	1.31
10 Year	3.03	1.49	1.83
30 Year	3.97	2.31	2.59

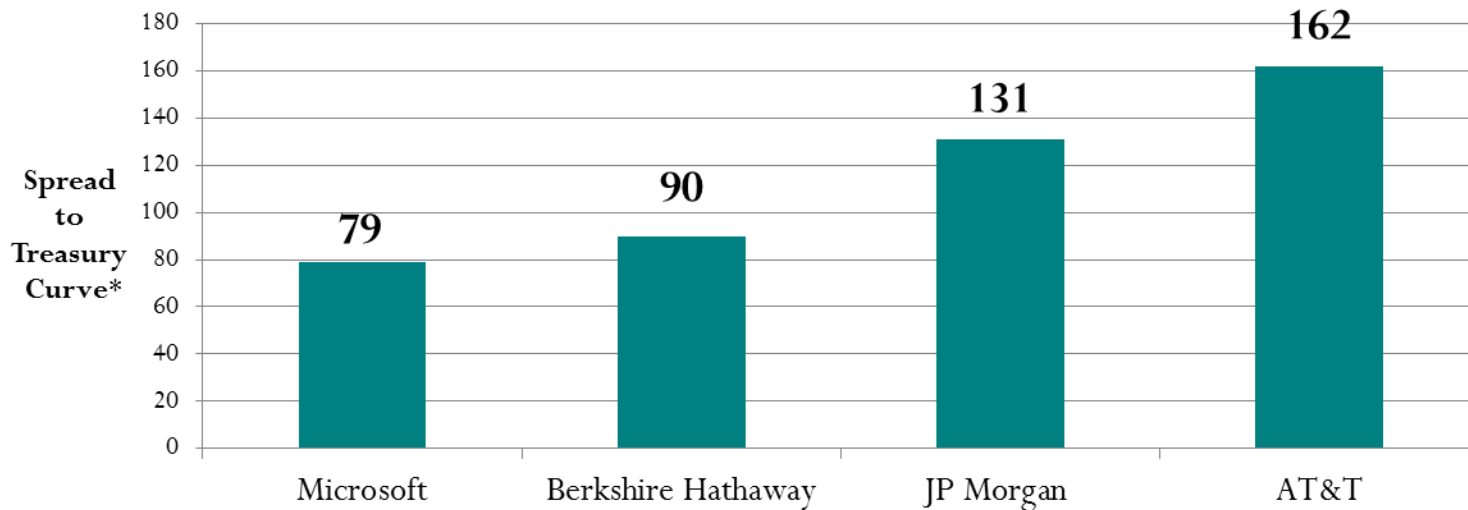
Three- Month Dollar LIBOR



Credit Spreads

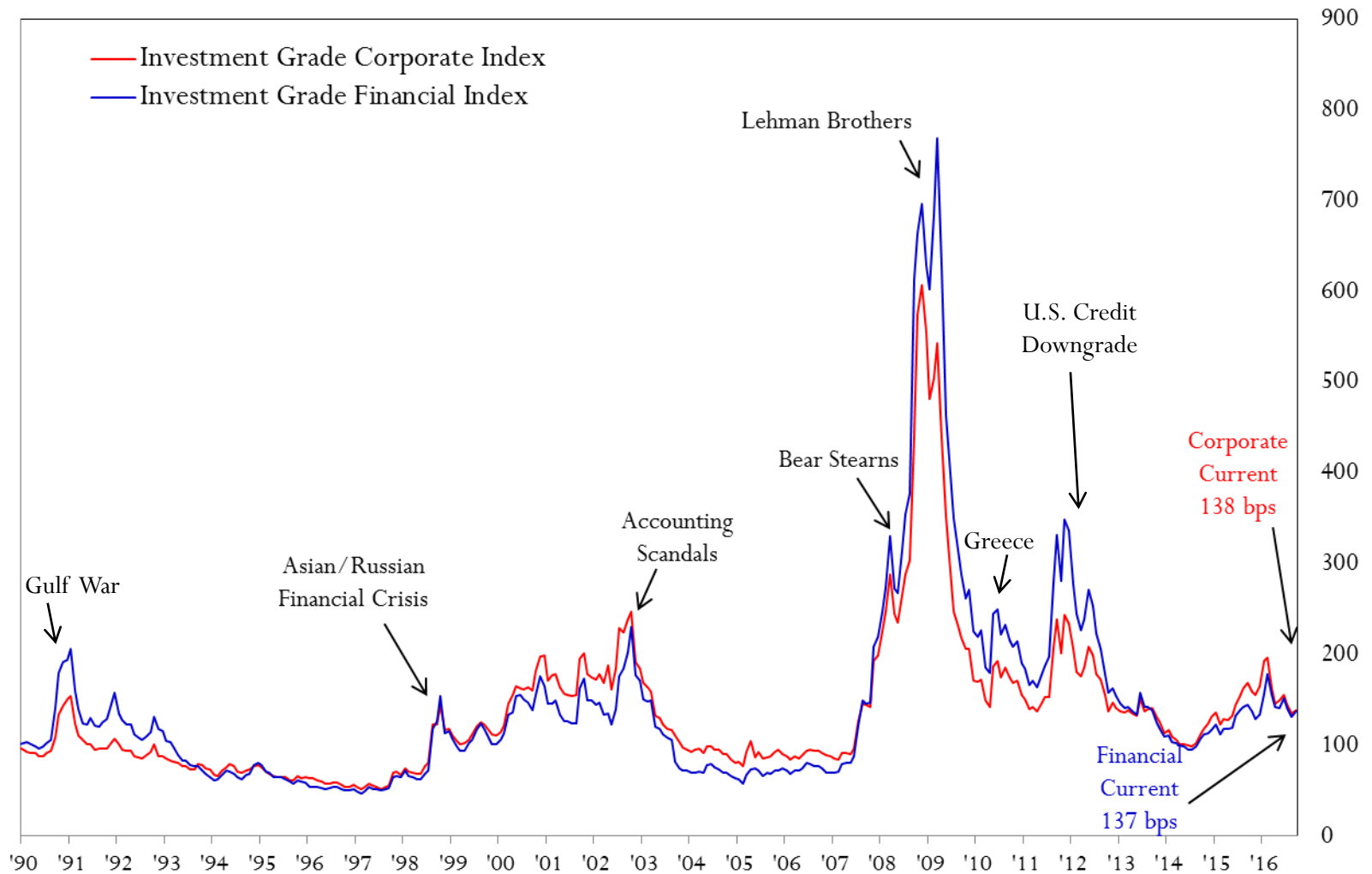
Ratings	Examples	% of Index*
AAA	Johnson & Johnson, Microsoft	1.8%
AA	Apple, Wal-Mart, IBM, Berkshire Hathaway	11.1%
A	JP Morgan, Wells Fargo, Pepsi, Target	39.1%
BBB	Xerox, Waste Management, AT&T, McDonalds	48.1%

*Percentage of Barclays Capital Investment Grade Corporate Index



*Option Adjusted Spread

Average Credit Spreads



Conclusions

- It is important to understand how both interest rate risk and credit risk might impact your portfolio.
- The importance of having an investment manager who can successfully navigate both types of risks has risen as the market dynamics have changed.
- Looking forward, expect short term rates to continue to gradually move higher. The increase in longer term rates may be overdone.