2019 Chilton Trust Fixed Income Outlook

By Louisa Ives and Tim Horan

Timothy W.A. Horan, Chief Investment Officer—Fixed Income, recently sat down with *Louisa M. Ives, Head of Manager Research* to discuss current economic conditions and Chilton Trust's outlook for fixed income markets this year.

L: As we think about the outlook and investment opportunities for 2019, what are your expectations for global growth?

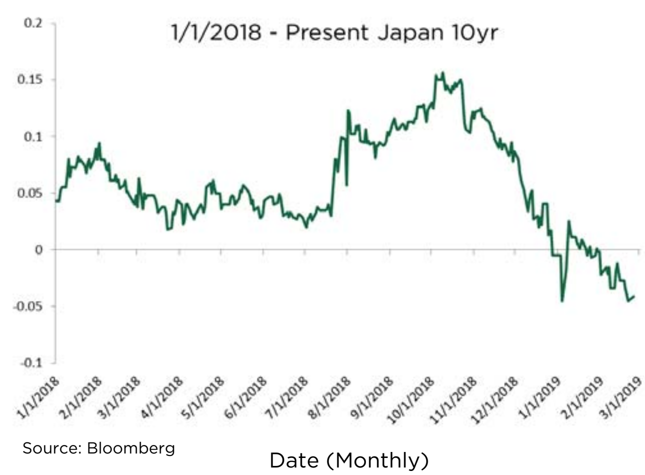
T: We're seeing a slowdown globally as we start 2019. Last year was a year of synchronized global growth right from the beginning. In the end, it did not actually come to fruition, and the seeds for the slowdown that we're seeing this year were already sowed. We are certainly seeing additional weakness in Europe, in Asia and even here in the US. In Europe, it's coming from an outright recession that's happening in Italy and a marked slowdown in Germany, which has been the lead economy in Europe. Germany has been much more affected by the slowdown in China than what was originally thought. One third of Germany's GDP is net exports. We're also seeing some big concerns with what happens to Europe internally after Britain leaves at the end of March. So, those questions are really preoccupying what's going on in Europe right now. Having just ended their version of quantitative easing at the end of December, the European Central bank will no longer be buying bonds.

Source: Bloomberg

For Asia, we're seeing the concerns about trade with China being at the very heart of the slowdown there.

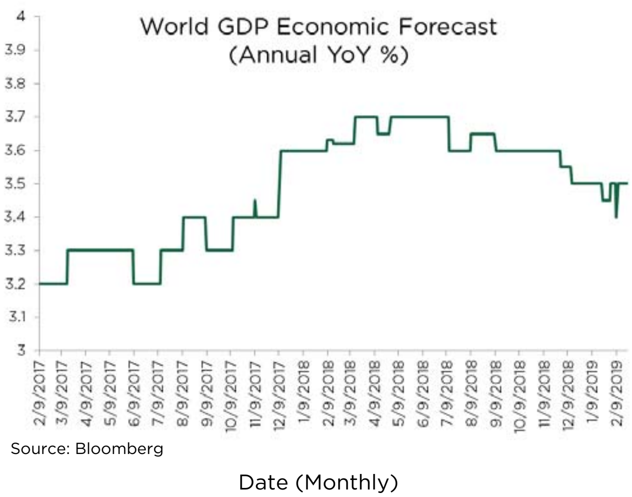
Source: Bloomberg

We do expect the Chinese to pull out all the stops; they're going to use all of their fiscal tools and all of their monetary tools to get the job done as they did back in 2008 and as they did in 2015. However, the jury is still out on what that's going to look like. Meanwhile, the clock is ticking between the US and China, and we need to see some resolution happen before the beginning of March otherwise the tariff jumps up to 25%. That's going to be a huge additional burden on the Chinese economy, and it's spilling over into the rest of Asia. Japan has been quite a disappointment this year as well.



Source: Bloomberg

As we look around the world, while the US has slower expectations for this year versus last year, last year we did hit the cover off the ball with an over 3% GDP. This year we're at perhaps the end of the fiscal stimulus that we got from this big sugar high from the tax cut, so we believe we're going to get a slower outcome this year. But the US consumer is still pretty strong and has so far been able to adjust to somewhat higher interest rates, and we still see investment happening here in the US, so that combination should carry us through the course of 2019. I'm optimistic that the US is going to remain the lead sled dog in global growth for 2019.



L: Tim, there's been a lot of anxiety around the direction of the Federal Reserve policy. How is Chilton thinking about the Fed at this point?

T: I'm so glad you asked that question because there's been a lot of confusion about what the Fed is trying to do and whether what the Fed is doing is actually going to end up producing a recession. The Federal Reserve throughout the course of 2018 was very much in the mode of normalizing interest rates. We saw the success of moves throughout the year. Even in the fourth quarter, when the Fed was coming under extreme criticism, starting with the President and extending all the way through the investor community, and the volatility that we saw in equity prices, the Fed stayed resolute and did not blink and moved at the December meeting. It moved because it had shown its direction already and it wanted to make sure that it followed through with that 25 basis point move. But then, the Fed articulated its stance—its "PDF" stance, it's Patient, it's Data dependent and it's Flexible about its balance sheet. And that was the clear message as we ended up with last year despite the volatility that we had seen in markets. We've just had another meeting and, Jerome Powell, the Chairman of the Fed, has given his press conference and he's moved to what I would describe as a double dovish stance. He's telling us that he is concerned about the rest of the global growth story, what's happening in Europe, he specifically cited Brexit and the slowdown in Germany, and he's also very concerned with the slowdown in China and the trade tariff wars that we're seeing here and its implication for the US. So our expectation for this year is that we may see perhaps one Fed move but it's going to be after a lot of additional data points. We're in a double dovish moment for the Federal Reserve here.

L: Given your views on the Fed, how will that translate into client portfolios?

T: The normalization has already been very positive for client portfolios because at last we now have yield in the very front end of the market to provide clients with safe yield, through government and municipal exposure — even high quality corporate exposure in our liquidity portfolios and in our intermediate portfolios. There continues to be, I think, a good solid bid for those kinds of fixed income instruments here, so we're able to deliver 3% in a liquidity portfolio these days and that was completely unheard of at the time of emergency zero interest rates. So we've come a long way already. Many clients need tax advantaged exposure, particularly as they deal with the fact that they may no longer be able to deduct their state and

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local taxes on their tax bill. So municipal bonds are going to continue to be a very important part of a client's need. And then finally, we continue to see very attractive yields in our preferred securities that we like to blend in as an additional support for overall yield in a portfolio; getting between 6—6.5% in a preferred these days is still quite attractive. So there's still a lot to do against the backdrop of even a double dovish Fed.

L: Thank you very much Tim. It's always a pleasure to connect with you.

T: Thanks Louisa.

Timothy W.A. Horan is an Executive Vice President & Chief Investment Officer – Fixed Income. With over 30 years of experience, Mr. Horan is a specialist in fixed income investing, ranging from municipal and US taxable securities to international bonds and currencies. He leads a team of nine professionals managing client assets across a variety of strategies including intermediate liquidity, tax-advantaged, taxable, international and global. Prior to joining Chilton Trust, Mr. Horan was a Managing Director at Morgan Stanley Smith Barney and served as MSSB's Chief Investment Officer of Fixed Income Investment Advisers, a division of MSSB, providing customized portfolio management to ultra-high net worth private clients, charities, endowments, foundations, and family offices, primarily in North America, the Caribbean and Latin America. Earlier, Mr. Horan led Morgan Stanley's Private Wealth Management Fixed Income business in London serving European, Middle Eastern and Swiss private bank clients. Mr. Horan also served on the Morgan Stanley Global Asset Allocation Committee.

Louisa M. Ives is a Managing Director & Head of Manager Research. Ms. Ives is responsible for external manager selection and due diligence for Chilton clients and is also a member of the Executive and Investment Committees at Chilton Trust. Prior to joining Chilton, Ms. Ives was a Managing Director at Chilton Investment Company, where she was a research analyst covering the financial services sector. She also served on the company's Board of Directors. Prior to joining Chilton, she worked at Coopers & Lybrand Consulting Group, reporting directly to the CEO, and began her career at Chemical Bank in their Middle Market Lending Group. Ms. Ives graduated cum laude from St. Lawrence University with a B.A. in English Literature and earned an M.B.A from Harvard Business School.

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