# INVESTMENT COMMENTARY

As the third longest U.S. economic expansion on record continues, concerns regarding rising inflationary pressures increased. The Consumer Price Index measured 2.7% over a twelve-month period, one of the highest readings since 2012, and while inflation is certainly increasing at the producer level, companies have been seemingly hesitant to pass these costs on to the end consumer in an effort to maintain market share. Global trade war fears, on the other hand, have eased somewhat as the United States, Mexico and Canada announced a plan on September 30, 2018, to replace NAFTA with the United States-Mexico-Canada Agreement ("USMCA") pending legislative approval, which follows a revised trade agreement with South Korea. The administration has been signaling breakthroughs in talks with most major trading partners with the exception of China, which we believe may still pose growth risks.

The Federal Reserve (Fed) continued with incremental rate hikes, raising the Fed Funds Target Rate by 25 basis points to 2.00-2.25% and signaling additional rate hikes in response to continued economic strength and rising inflation concerns. The yield on the 2-year Treasury climbed 29 basis points to 2.82% resulting in additional flattening of the yield curve. The yield on the 10-year Treasury increased by 20 basis points to 3.06%, producing a negative quarterly return (-1.09%) for the benchmark Treasury. Overall, the Treasury sector generated a -0.59% quarterly return. Investment grade spread sectors outperformed US Treasuries for the quarter with Investment Grade corporate bonds (+0.97%), Asset-Backed Securities (+0.49%), Agency Securities (+0.28%) and Mortgage-Backed Securities (-0.12%) all providing excess returns for the quarter. High Yield corporate bonds were a top performer again (+2.40%), reflecting the strong economic backdrop and correlating, as expected, with the equity market's strong performance.

During the third quarter our long-term economic outlook deteriorated, however our expectations over the next 12-months improved slightly as we continue to observe solid sequential quarter over quarter growth in the US economy and labor force. The Consumer Confidence Index climbed to 138.4 in September, the second highest reading since its inception in 1977, and consumption continued to be strong. Unemployment is at a 50-year low and wages continue to rise, albeit at a tepid pace, as increases in state minimum wages will continue into 2019 for the fourth consecutive year. However, we remain cautious regarding the efficacy of U.S. trade and monetary policy as potential contributors to future economic headwinds. Will we ultimately level the playing field with lower tariffs or will we enter into a protectionist era, driven largely by U.S.-China trade war concerns? U.S. oil exports to China, an industry not directly impacted by trade tariffs, were reduced from 23% of U.S. output to 0% in August, while U.S. soybean exports to China, a key agricultural commodity, were reduced by roughly 95% versus August 2017. The U.S. imposed/suggested trade tariffs represent the ultimate economic wildcard, as they can meaningfully impact both economic growth and price stability. Largely due to tariff-related economic uncertainty, the International Monetary Fund (IMF) cut its 2018-19 forecast for global growth to 3.7%, the first such cut in two years. Additionally, the Fed removed the term "accommodative" from their September prepared statement; however the Federal Open Market Committee (FOMC) "dot plot" indicates a high probability of one more rate increase in December, three more rate hikes in 2019 and another in 2020. The Fed also plans to remove another approximately $500 billion from its balance sheet in 2019. It's also important to note that the 10-year treasury yield climbed to the high end of our expected range by quarter end, as we believe this upward move in the long end of the yield curve is important because this could reduce the economic risks associated with a flat or inverted yield curve.

We believe this upward shift in the yield curve may reflect increased potential for sustainability in U.S. growth and employment. However, we believe we are at an inflection point in this economic cycle, where our policy makers can either sustain this attractive slow-growth, modest inflation cycle or bring it to an abrupt end.

We continue to maintain our short duration position relative to the benchmarks given our near-term interest rate outlook as strong Treasury supply, sustained economic growth and the gradual normalization of the Fed Fund Rate places upward pressure on the Treasury curve. We expect heightened near-term rate volatility due to market uncertainty surrounding additional Fed rate hikes going forward as the debate surrounding terminal rate levels intensifies. While global trade uncertainty and strong Mergers and Acquisitions (M&A) activity persist, we slightly reduced our corporate overweight, as we believe the risk of recession remains low over the next twelve months, focusing our opportunity set on high quality corporate names given the relatively tight spread environment. As investors become more selective and risk-reward sensitive, we remain wary of corporations taking on substantial leverage at this point in the market cycle. However, we believe the rise in overall corporate leverage is manageable for high quality investment grade borrowers with strong revenue/EBITDA (earnings before interest, taxes, depreciation and amortization) growth that have benefitted from low rate issuance and lower corporate tax rates. We continue to overweight Industrial credits that provide incremental risk-adjusted yield and also seek to selectively invest in high-quality, senior Financial credits that we believe offer attractive compensation for the sector volatility.

PIA Investment Strategy Group

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*Mutual Fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in derivatives, which may involve risks greater than the risks presented by more traditional investments. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities that the ETF or mutual fund holds. It will also bear additional expenses, including operating expenses, brokerage costs and the potential duplication of management fees. These risks are fully disclosed in the Prospectus.*

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

Basis point (bp)- A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.

Yield - The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost.

Consumer Confidence Index (CCI) is a monthly release from the Conference Board, a non-profit business group that is highly regarded by investors and the Federal Reserve. CCI is a distinctive indicator, formed from survey results of more than 5,000 households and designed to gauge the relative financial health, spending power and overall confidence of the average American consumer

Monetary - consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

International Monetary Fund (IMF) is based in Washington, D.C. and currently consists of 189 member countries, each of which has representation on the IMF's executive board in proportion to its financial importance, so that the most powerful countries in the global economy have the most voting power. Its mission is to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Tariff is a tax imposed on imported goods and services. Basis points (bps)- A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

Yield Curve - A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt.

Duration - A commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

Federal Open Market Committee (FOMC) - The branch of the Federal Reserve Board that determines the direction of monetary policy.

EBITDA stands for earnings before interest, taxes, depreciation and amortization. EBITDA is one indicator of a company's financial performance and is used as a proxy for the earning potential of a business.

Spread - The difference in yields between two fixed-income securities with the same maturity, but originating from different investment sectors.

Benchmark - The ICE BofAML 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. You cannot invest directly in an index.

Mergers and Acquisitions (M&A) - type of restructuring in that they result in some entity reorganization with the aim to provide growth or positive value.

**Past performance is not a guarantee of future results.**

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

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