F/m GENOA TAXABLE STRATEGIES
ATTRIBUTION ANALYSIS
Q1 2021

GENOA ASSET MANAGEMENT

GENOA TAXABLE STRATEGIES OVERVIEW

With rising inflation expectations, the market started the quarter on a negative note. Quickly following a year end stimulus bill, President Biden began work and passed a third bill pumping $1.9 trillion of spending and support into the economy. All the fiscal stimulus, going back to the 2020 CARES Act, were funded by new borrowing. Combining the fiscal stimulus with the US Federal Reserve's continued monetary stimulus, caution about future price stability is warranted. Add in the expected issuance of US Treasuries to fund this bill, you get a recipe for a higher long term interest rates and lower prices.
The 10-year US Treasury started the quarter at a yield to maturity of 0.916% and by the end of the quarter, the yield to maturity had risen to 1.742%. While the Bloomberg Aggregate Bond Index had fallen 3.37%%, the Bloomberg Long US Treasury Index had fallen 13.52%.
Corporate bonds fared better, as expectations that a strong economy should benefit companies whose performance is tied to the economy. Like the rotation in the stock market, bonds tied to economic growth (Industrials, Finance, Energy) did better than defensive industries (Technology, Healthcare, Defense). BBB rated and lower BB+ and below rated bonds also did better as risks for default were much lower with programs in place to rescue troubled companies.

Strategy Review

As of 03/31/2021 (Source: Morningstar)

Strategy *Performance (Composite)*	**Opportunistic Income**	**Quality Income**
Strategy YTD (gross)	0.52%	-3.32%
Strategy YTD (net)	0.22%	-3.57%
Benchmark* YTD	-3.37%	-3.37%
Relative Performance YTD (g)	*3.89%*	*-0.20%*
Characteristics Overview		
Yield to Maturity	3.81%	1.88%
Duration (years)	5.20	6.05
Credit	BBB	AA-

**Barclays US Aggregate*

PERFORMANCE CONTRIBUTORS

Opportunistic Income

- Holdings in floating rate securities performed well as investors began to address the end of lower rates and the potential of higher rates
- The purchase of out of the money convertible bonds worked well as the stock market rally has moved the underlying stock prices higher making our convertible bonds worth more

Quality Income

- Rising rates increased demand for the floating rate bonds we own
- Outperformance of our bonds issued by financial companies

PERFORMANCE DETRACTORS

Opportunistic Income

- Long dated, high quality corporate bonds fell as long-term interest rates increased in the quarter
- Holdings in utility bonds underperformed as less liquid bonds spread wider to treasuries

Quality Income

- Exposure to longer dated bonds as long rates increased
- Holdings in utility bonds underperformed as less liquid bonds spread wider to treasuries

STRATEGY POSITION AND 2021 OUTLOOK

Looking ahead, we believe the market expectations for inflation are over blown. While the US is significantly expanding the money supply, they are doing it to counter significant deflationary forces in the economy. Continued high unemployment (stagnant wages), high consumer savings rates (less borrowing), material shortages, and slow loan growth all combine to limit inflationary pressures. Without companies and consumers borrowing, the multiplicative effect of stimulus is muted. Material shortages create price spikes and a lack of products to purchase with stimulus money. While recent consumer/producer economic release headlines have been worrisome, deeper analysis reveals the recovery of energy prices from the COVID oil price wars in 2020 was the driver of the numbers. We expect core inflation to remain below The Fed's target for the intermediate term.

This combination of low rates and economic growth will continue to benefit corporate bonds. While corporate spreads reflect the improved economy, we remain focused on improving credits where credit spreads can continue to tighten.

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The "Gross" returns presented are gross of fees. The results do not reflect the deduction of investment management fees and other expenses incurred in the management of the account. "Net" of fee performance reflects a deduction of .25% for Quality Income and .30% for Opportunistic Income% for advisory fees. The fee schedule can be found in Genoa's ADV Part 2A. Actual fees will vary depending on, among other things, the applicable fee schedule, the investment period, investment performance and account size.

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The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency)

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