NEWPERSPECTIVES

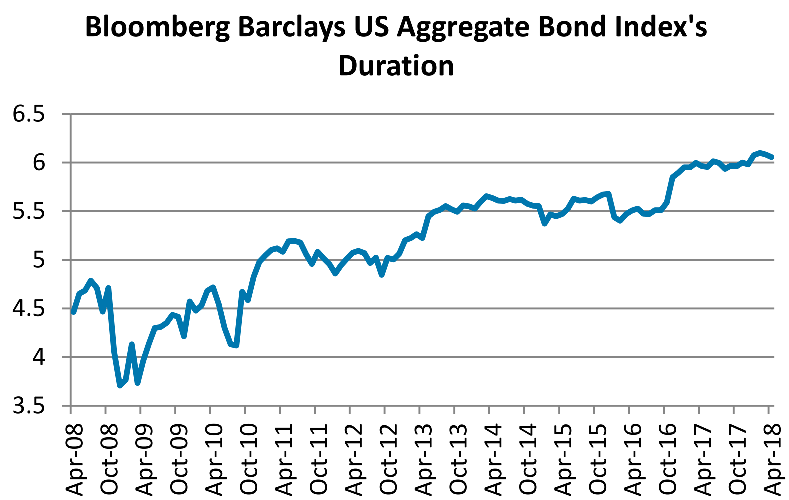
Commentary from New Century Advisors
July 2018

The US Agg – More Risk / Less Diversity

- **Index duration has sharply increased**
- **Higher Treasury weight means lower yield vs. the past**

Bonds have long been one of the primary pillars within any diversified portfolio, and the Bloomberg Barclays U.S. Aggregate Bond Index, aka the Agg, is often cited as a proxy for the U.S. bond market overall. But investors in any of the countless funds benchmarked against the Agg should be aware of two significant trends over the past 10 years that could have a dramatic impact on future returns.

First, the duration, or interest rate risk, of the Agg has been steadily increasing since the financial crisis. The index duration has increased by over 35% from pre-crisis levels, and over 63% from the late 2008 lows. Every sector within the Agg is longer in duration, a function of lower interest rates. In addition, the yield cushion (roughly speaking – the return you can expect to earn in the absence of interest rate and other market moves) is much lower now: 3.3% from 4.7%.



Furthermore, while the Agg itself has become increasingly risky, it has also become less diverse, with more concentrated sector exposure. Most notably, U.S. Treasuries have gone from a 22.1% weight within the index to a 37.4% weight, an increase of nearly 70%. That has come at the expense of more yieldy spread sectors which, combined with lower interest rates overall, has helped further bring down the Agg's yield.

Bloomberg Barclays US Aggregate Bond Index - Weight by Sector			
	4/30/2008	**4/30/2018**	**% CHANGE**
U.S. Treasury	22.1%	37.4%	69.6%
U.S. MBS	38.8%	28.2%	-27.4%
U.S. Corporate	19.8%	25.2%	27.3%
U.S. Agency	11.0%	3.2%	-70.6%
CMBS: ERISA Eligible	5.3%	1.9%	-64.0%
U.S. Aggregate: Supranational	0.9%	1.6%	75.3%
U.S. Aggregate: Sovereign	0.7%	1.0%	31.1%
Foreign Agency	0.7%	1.0%	45.5%
Asset-Backed Securities	0.8%	0.6%	-27.3%
Total	100%	100%	

Investors looking to benefit from the diversification benefits of fixed income would be well advised to look beyond a simple passive investment in the U.S. Agg. An active manager worth what you pay her can use the fixed income toolkit to assess the risks in the Agg, and to structure portfolios that look within and outside of it to add value.

For more information on any of the data, trends, or trading strategies in this piece, or to discuss how New Century Advisors might help you to manage your portfolio, please contact Leigh Talbot, CFA, Director of Client Relations at 240-395-0012 and ltalbot@ncallc.com

NEWPERSPECTIVES

Commentary from New Century Advisors
July 2018

Important Disclosures:

PAST PERFORMANCE IS NOT AN INDICATOR OF FUTURE RESULTS.

Forward looking statements: Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that New Century Advisors considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material. Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of acquisitions of the underlying assets, the timing and frequency of defaults on the underlying assets, amongst others. Consequently, the inclusion of projections herein should not be regarded as a representation by the manager of the results that will actually be achieved. New Century Advisors, LLC has no obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition. The securities listed in New Perspectives are not to be considered recommendations or an offer to buy or sell securities and are being used as illustrations only. Past performance is not an indicator of future results. There is no guarantee that the investment objective of the strategy will be achieved. Index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. One cannot invest directly in an index. CLIENTS MUST BE PREPARED TO BEAR THE RISK OF A TOTAL LOSS OF THEIR INVESTMENT. THE THEMES AND STRATEGIES HEREIN ARE NOT TO BE CONSTRUED AS RECOMMENDATIONS. THEY ARE FOR ILLUSTRATION PURPOSES ONLY AND SUBJECT TO CHANGE WITHOUT NOTICE.

Data provided by New Century Advisors, LLC, Bloomberg and BLS. NCA does not guarantee or warrant the accuracy, timeliness, or completeness of third party provided information and is not responsible for any errors or omissions. The discussion of any investments in this presentation is for illustrative purposes only and there is no assurance that the adviser will make any investments with the same or similar characteristics as any investments presented. The investments identified and described do not represent all of the investments purchased or sold for client accounts. The representative investments discussed were selected based on a number of factors including, investment process and subject matter applicability. The reader should not assume that an investment identified was or will be profitable.

The information contained in this email or document may not be reproduced or provided to others without the prior written permission of New Century Advisors, LLC. The information provided is neither an offering nor a solicitation of an offering for any securities. Nothing contained herein shall constitute any representation or warranty as to future performance.