

U.S. Treasurys
Yield: 1.88%

Risk: 4.33%

 TREND
F

 CARRY
F

Treasurys may be the purest way to express an interest rate position. As a result, this asset class represents the tip of the spear on the future of interest rates. The recent collapse in trend and carry demonstrates the sharp reversal in fortune for any interest rate sensitive asset class. If you must hold Treasurys, short duration/cash-like is best.

U.S. Investment Grade Credit
Yield: 3.27%

Risk: 4.89%

 TREND
B

 CARRY
C

The trend is favorable for credit, but given the overall strength in the economy, investors are likely to get better rewards by taking more credit risk. Look to high-yield corporate bonds instead.

Municipal Bonds
Yield: 2.54%

Risk: 4.13%

 TREND
D

 CARRY
D

Muni bonds offer an attractive yield relative to Treasurys and the trend does appear to be improving. However, the low likelihood of recession favors taking more credit risk. Look to high-yield municipal bonds instead.

High-Yield Municipal Bonds
Yield: 6.33%

Risk: 6.11%

 TREND
C

 CARRY
B

This asset class is riskier than rated muni bonds, but barring a recession (which seems unlikely at this juncture) we believe high-yield municipal bonds are a good alternative to any investment grade holding. If you are looking for safe cash flow, this asset class is your best bet.

U.S. High-Yield Corporate Bonds
Yield: 5.85%

Risk: 3.30%

 TREND
A

 CARRY
A

Given the stability of the economy and the likelihood of increasing interest rates down the road, U.S. high-yield corporate bonds are one of our favorite asset classes. We expect this asset class to be a relative outperformer for the year.

Emerging Market Corporate Debt
Yield: 6.36%

Risk: 3.91%

 TREND
A

 CARRY
A

EM corporate debt is also one of our favorite asset classes for 2017. The low price volatility and high current income makes this asset class very attractive. We don't expect this asset class to deliver total return like it has over the past year, but rising oil prices and higher income will offset any increased rates.

Emerging Market Sovereign Debt
Yield: 5.35%

Risk: 8.94%

 TREND
B

 CARRY
D

In terms of income, EM sovereign debt is a good asset class, but the strong dollar has put pressure on government balance sheets, which has been reflected in the price volatility of the asset class. Investors that hold government debt might prefer this over EM corporate debt.

International Sovereign Debt
Yield: 0.75%

Risk: 13.54%

 TREND
F

 CARRY
F

International sovereign debt is one of the riskiest asset classes out there today. The extremely low level of income can't offset changes in rates. It also appears that both Europe and Japan are slowing their monetary easing and actual inflation is on the horizon. These factors put enormous pressure on this asset class.

Mortgages
Yield: 2.90%

Risk: 3.61%

 TREND
D

 CARRY
C

Mortgages are a tough asset class in a rising rate environment. There has been some bounceback here as the course of interest rate increases is starting to become a little more visible. In general though, the macro trend is against this asset class, so it probably does not belong in an income portfolio.

Short Term Treasurys (Cash Proxy)
Yield: 1.19%

Risk: 0.90%

 TREND
C

 CARRY
B

Right now we would prefer credit risk over short duration, but in the event of a recessionary environment, cash is starting to look very attractive.

Grades: Quintile rankings of asset classes
 Downgrade Upgrade No Change

Trend: 12 month momentum
Carry: Current Yield / Current Std. Deviation

Risk: Based on 60-day std. deviation

Sources: Bloomberg, Salient Partners L.P., as of 01/31/17. The performance quoted represents past performance, does not guarantee future results and current performance may be lower or higher than the data quoted.

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Definition of Terms

Alerian MLP Infrastructure Index is the leading gauge of large- and mid-cap energy master limited partnerships (MLPs). The float-adjusted, capitalization-weighted index includes some of the most prominent companies and captures approximately 75% of available market capitalization.

Bloomberg Barclays EM Sovereign Bond Index is a rules-based market-value weighted index engineered to measure the fixed-rate local currency sovereign bonds issued in emerging markets as identified by Bloomberg.

Bloomberg Barclays Global Treasury ex-USD Index is an unmanaged index composed of those securities included in the Barclays Global Aggregate Bond Index that are Treasury securities, with the U.S. excluded while hedging the currency back to the U.S. dollar.

Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

Bloomberg Barclays U.S. Corporate High-Yield Bond Index covers the USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Bloomberg Barclays U.S. Credit Index is an index composed of corporate and non-corporate debt issues that are rated investment grade (Baa3/BBB) or higher.

Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index tracks the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

Bloomberg Barclays U.S. Municipal Bond Index covers the USD-denominated, long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

Bloomberg Barclays U.S. Treasury Index is an unmanaged index of public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg Barclays U.S. Treasury Bond 1-3 Year Term Index is an unmanaged index of public obligations of the U.S. Treasury with a maturity between one and up to (but not including) three years.

BofA Merrill Lynch U.S. Core Fixed Rate Preferred Stock Index consists of investment-grade, fixed and fixed-to-floating rate U.S. dollar-denominated preferred securities.

Brexit a term for the potential or hypothetical departure of the United Kingdom from the European Union.

Credit Suisse Emerging Market Corporate Bond Index consists of U.S. dollar-denominated fixed-income issues from Latin America, Eastern Europe and Asia.

Dow Jones Global ex-U.S. Select REIT Index measures the performance of equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally, excluding the U.S.

Dow Jones U.S. Real Estate Index measures the performance of the real estate industry of the U.S. equity market.

JPMorgan Global Manufacturing Purchasing Managers Index is a composite index that serves as a global economic indicator by measuring different business conditions in 24 countries, including global manufacturing output, new orders and employment across the global manufacturing sector.

MSCI EAFE (Europe, Australasia and Far East) Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

MSCI Emerging Markets Infrastructure Index captures the global opportunity set of companies that are owners or operators of infrastructure assets.

MSCI World Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global developed markets.

Max drawdown is the percentage of loss that an asset incurs from its peak net asset value to its lowest value.

Price-earnings (P/E) ratio is a measure of the price paid for a share of stock relative to the annual income or profit earned by the company per share. A higher P/E ratio means that investors are paying more for each unit of income.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market.

S&P 500 Index is an unmanaged index of 500 common stocks chosen to reflect the industries in the U.S. economy.

Sharpe ratio is a ratio developed by Nobel laureate William F. Sharpe to measure how a fund performs relative to the risk it takes.

Standard deviation measures the degree to which a fund's return varies from its previous returns or from the average of all similar funds.

Yield is the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost or on the U.S. government's debt obligations.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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