

U.S. Treasurys

Yield: 1.89%

Risk: 4.04%

TREND CARRY
F **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 demonstrate the sharp reversal in fortune for any interest rate sensitive asset class.

U.S. Investment Grade Credit

Yield: 3.29%

Risk: 4.06%

TREND CARRY
B **C**

The trend is improving for investment grade and for some investors this might be a place to find some safe, quality cash flow. However, barring a recession, we think investors should feel comfortable taking more credit risk.

Municipal Bonds

Yield: 2.65%

Risk: 4.06%

TREND CARRY
F **D**

Following the election there was a feverish sell-off of muni bonds on the idea that tax rates were going down. Investors overreacted in the asset class and there was a slight bounceback in December which took care of any mispricing of the asset class. Again, we believe investors should be willing to take a little bit more credit risk.

High-Yield Municipal

Yield: 6.42%

Risk: 5.89%

TREND CARRY
C **B**

Again there was a sharp sell off in this asset class following the election. This asset class is riskier than rated muni bonds, but barring a recession (which seems unlikely at this juncture) this is a good alternative to any investment grade holding. If you are looking for safe cash flow, this is your best bet.

U.S. High-Yield Corporate

Yield: 6.12%

Risk: 3.74%

TREND CARRY
A **A**

This has been one of our favorite asset classes based largely on very compelling valuations in early 2016. However, the level of defaults and expectations have reached parity and we don't expect to earn the same level of return in 2017. Given the stable economy and the likelihood of upward rate pressure, high-yield is likely to be a relative outperformer.

Emerging Market Corporate

Yield: 6.78%

Risk: 3.80%

TREND CARRY
A **A**

This was also one of our favorite asset classes in 2016 and, like high-yield, may have reached fair value. But the low price volatility still makes it very attractive. We don't expect this 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

Yield: 5.42%

Risk: 8.97%

TREND CARRY
B **D**

This is also another great asset class for income seeking investors. Given the risk/reward profile, investors would likely be better off with Emerging Market Corporates, but if the investor prefers the safety of government bonds then this may be a good alternative. However, it is subject to changes in foreign policy which might increase volatility.

International Sovereign

Yield: 0.63%

Risk: 12.85%

TREND CARRY
C **F**

We warned about this asset class last year and think 2017 won't be much better as slowing of asset purchases in Japan and Europe will put upward pressure on rates and possibly bring to a close the idea that negative interest rates were a long term policy tool.

Mortgages

Yield: 0.63%

Risk: 3.30%

TREND CARRY
D **B**

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: 0.82%

TREND CARRY
D **B**

Cash is starting to look better these days on an income basis as the yield curve is beginning to flatten. We believe shortening duration or increasing credit exposure are really the best ways to get income in a rising rate environment. Barring a recession though, we'd suggest credit over short duration.

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 12/31/16. 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

Emerging market is a country that has some characteristics of a developed market but does not meet all of the standards to be a developed market.

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

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.

Index Definitions

Alerian MLP 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 1-3 Year U.S. Treasury 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.

Bloomberg Barclays EM Sovereign 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 is an unmanaged index composed of those securities included in the Bloomberg Barclays Global Aggregate Bond Index that are Treasury securities, with the US excluded while hedging the currency back to the US dollar.

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

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

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

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

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.

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

Not FDIC Insured | No Bank Guarantee | May Lose Value

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