

**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

**U.S. Treasurys**

**Yield:** 2.74%

**Risk:** 2.94%

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. If you must hold Treasurys, we believe short duration/cash-like is best.

**U.S. Investment Grade Credit**

**Yield:** 3.68%

**Risk:** 3.25%

TREND CARRY  
**C D**

Things are looking a bit bleak for this asset class as volatility picked up slightly in February and March. This change just reinforces our belief that high-yield corporates are better in the current environment.

**Municipal Bonds**

**Yield:** 2.68%

**Risk:** 1.75%

TREND CARRY  
**D C**

Muni bonds have improved since last month and look pretty good compared to Treasurys. However, managing duration of this asset class is important as they tend to be longer in duration than Treasurys. Barring a recession, look to high-yield munis instead.

**High-Yield Municipal Bonds**

**Yield:** 5.26%

**Risk:** 2.90%

TREND CARRY  
**A 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, we think this asset class is likely the best opportunity.

**U.S. High-Yield Corporate Bonds**

**Yield:** 6.19%

**Risk:** 3.06%

TREND CARRY  
**B B**

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:** 6.42%

**Risk:** 1.98%

TREND CARRY  
**B A**

EM corporate debt is one of our favorite asset classes for 2018. The low price volatility and high current income make this asset class very attractive.

**Emerging Market Sovereign Debt**

**Yield:** 5.50%

**Risk:** 4.03%

TREND CARRY  
**C C**

There are many reasons to like emerging market assets, but this asset class is getting overpriced relative other bonds. Look to EM corporate debt instead.

**International Sovereign Debt**

**Yield:** 0.69%

**Risk:** 6.13%

TREND CARRY  
**A F**

This asset class has been a great performer, but has volatility similar to stocks and a yield that offers very little cover in the case of interest rates rising, which they have been. A pullback in currency values could lead to a very sharp decline, such as the near 4% drawdown in September 2017.

**Mortgages**

**Yield:** 3.30%

**Risk:** 2.78%

TREND CARRY  
**F D**

Mortgages continue to struggle in a rising rate environment. We have seen a downgrade in trend as the course of interest rate increases becomes more visible. Due to this macro trend, mortgages most likely do not belong in an income portfolio.

**Short Term Treasurys (Cash Proxy)**

**Yield:** 2.29%

**Risk:** 0.73%

TREND CARRY  
**D A**

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.

Source: Bloomberg, Salient Partners, L.P., as of 04/30/18. The performance quoted represents past performance, does not guarantee future results and current performance may be lower or higher than the data quoted. This material is distributed for informational purposes only and should not be considered as investment advice, a recommendation of any particular security, strategy or investment product, or as an offer or solicitation with respect to the purchase or sale of any investment.

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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 US excluded while hedging the currency back to the US 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. Municipal High Yield Index** measures the noninvestment-grade and nonrated U.S. dollar-denominated, fixed-rate, tax-exempt bond market within the 50 United States and four other qualifying regions (Washington D.C., Puerto Rico, Guam and the Virgin Islands).

**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 includes public obligations of the U.S. Treasury with a maturity between 1 and up to (but not including) 3 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.

**CBOE Volatility Index** is a popular measure of market risk and is constructed using the implied volatility of S&P 500 index options.

**Consumer price index (CPI)** is an index number measuring the average price of consumer goods and services purchased by households. The percentage change in the CPI is a measure of inflation.

**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 Industrial Average (DIJA)** is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry and are listed on the New York Stock Exchange.

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

**ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM) and monitors employment, production, inventories, new orders and supplier deliveries.

**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.

**NASDAQ-100** is a modified capitalization-weighted index that includes the largest nonfinancial U.S. and non-U.S. companies listed on the NASDAQ stock market across a variety of industries, such as retail, healthcare, telecommunications, wholesale trade, biotechnology and technology.

**NYSE Advance/Decline Indicator** is a technical indicator that charts the difference between the number of advancing stocks and declining stocks on the NYSE in a given market on a given day.

**NYSE New High/Lows** is a technical indicator that charts the highest and lowest prices over 52 weeks of NYSE stocks in a given market on a given day.

**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 Energy Index** comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

**S&P 500 Financials Index** comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

**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.

**U.S. Dollar Index (DXY)** is a measure of the value of the U.S. dollar relative to six major world currencies: the euro, Japanese yen, Canadian dollar, British pound, Swedish krona and Swiss franc.

**Valuation** is the process of determining the value of an asset or company based on earnings and the market value of assets.

**VIX** (the ticker symbol for the Chicago Board Options Exchange Volatility Index) is a popular measure of market risk and is constructed using the implied volatility of S&P 500 index options.

**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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