

Investing through Clouds of Uncertainty

After months of debate, the so-called “Grand Plan” was the latest disappointment from European officials trying to deliver the systemic solution investors crave. The ECB is the only capable backstop to Europe’s fiscal difficulties and until it joins a comprehensive plan large enough to handle the debt problems of Italy and Spain, political solutions will continue to disappoint. Such a plan has substantial political headwinds and is not likely to emerge any time soon. When the investment clouds finally clear, there may be many casualties.

This is not a time to seek a high return path because the risks are ever changing and remain unmanageable. Avoid exposure to all European sovereigns and financials.

Meanwhile, investor’s flight to safety has pushed down U.S. Treasury rates to historic levels. Fear of importing European problems to our economic landscape have dominated headlines and led many to eliminate all risk and chase the safety of Treasuries. But with rates low and volatility high the safe haven of governments may actually be less than many perceive. Further, the Deficit Supercommittee’s November deadline is rapidly approaching and the political stalemate has yet to be broken.

Underweight U.S. Treasuries and maintain a modest barbell portfolio posture with neutral duration.

Finally, the U.S. economy is growing slowly and concerns about recession are likely to persist. Yet, even in this slow growth environment, many businesses have improved their balance sheets and continue to experience solid cash flow growth. Yield spreads have widened in the bond market’s recent “risk-off” phase presenting a good investment opportunity. Investors need to be selective – especially in financials – but quality credit offers attractive relative returns.

Overweight quality credit, including taxable municipals.

We believe the current market environment favors a quality, yield orientation and have built our portfolios to capture additional income without excessive risk.

As always, if you have any questions or desire additional information, please don’t hesitate to contact me.

Thanks,
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