James Camp, CFA
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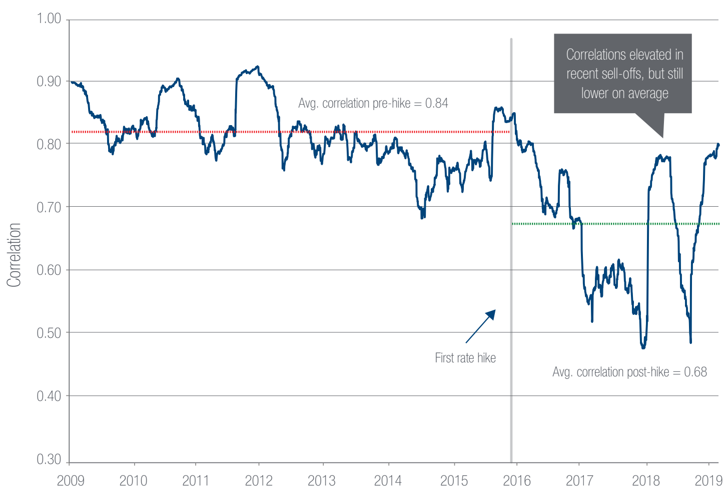
A MOMENT for Active Management?

Amid slowing global growth, a normalized low-correlation market environment may reward active management, says James Camp, CFA, Managing Director of Fixed & Strategic Income at Eagle Asset Management, an affiliate of Carillon Tower Advisers.

Camp described the previous central bank model that made passive investing attractive as "changed," pointing to correlations of sectors to the S&P 500 Index (see chart below). He believes the normalization of interest rates, reduction in central bank balance sheets, and other actions by the U.S. Federal Reserve (Fed) over the past two years created an environment where correlations across securities and asset classes have declined, presenting an opportunity for active managers.

"These intra-market correlations breaking down to us are indicative of a market beginning to reward companies that are expanding capital expenditures, having good solid organic growth, and modest leverage to balance sheets," Camp said.

Correlations of Sectors to S&P 500 Index



Source: Bloomberg; market data as of March 20, 2019.

● Average 90-Day Correlation

After its March 19-20 meeting, the Federal Open Markets Committee (FOMC) revealed that no further interest rate increases are planned in 2019. U.S. Federal Reserve Chairman Jerome Powell also says the central bank will complete its balance sheet roll-off program at the end of September.

The U.S. central bank also reduced expectations in GDP growth and inflation, and bumped the expected unemployment rate higher.

The Fed's retreat from a previously more aggressive policy has driven some investors back into passive strategies, but Camp and his team are not convinced such trends are durable or in investors' best interest.

"Financial conditions have loosened in large measure because the Fed appears to have stood down," said Camp. "However, these actions have been taken against the backdrop of a more normal rate environment than we have seen in years and slowing global economic growth."

Camp points to higher leverage among corporations than in previous market cycles and the recent inversion between the 10-year and three-month Treasury yields as evidence of possible future pitfalls for passive investors. He also laid out these areas of future concern:

- In Europe, Camp warns that attempts to merge or nationalize away problems in the banking system may fail. He believes a "moment of reckoning" may be on the horizon for European bonds.
- The U.S. corporate bond market is increasingly risky and full of triple-B-rated bonds, and they are not all created equal.

"It's very important to know what you own… the market is longer, the market is largely triple-B, but triple-B is not the same across the stack," he said.

Camp emphasizes that Eagle's active approach to income investing focuses on security selection, correlation, asset allocation and high quality.

"High-quality bonds help support a portfolio in risk-off environments," Camp explained. "We can be smart about income generation, we can be risk-conscious, and we can still aim to produce results for clients."

About Eagle Asset Management

Eagle Asset Management provides a broad array of fundamental equity and fixed-income strategies designed to meet the long-term goals of institutional and individual investors. Eagle's multiple independent investment teams have the autonomy to pursue investment decisions guided by their individual philosophies and strategies.

About Carillon Tower Advisers

Carillon Tower Advisers is a global asset-management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our partner affiliates – ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes through a number of vehicles, each with a focus on risk-adjusted returns and alpha generation. We believe this lineup of institutional-class portfolio managers can help investors meet their long-term business and financial goals.

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Many investors consider bonds to be "risk-free" investment vehicles. Historically, bonds have indeed provided less volatility and less risk of loss of capital than has equity investing. However, there are many factors which may affect the risk and return profile of a fixed-income portfolio. The two most prominent factors are interest-rate movements and the creditworthiness of the bond issuer. The risk of a change in the market value of the investment due to changes in interest rates is known as interest-rate risk. Interest-rate risk is subject to many variables but may be analyzed based on various data (e.g., effective duration). The risk that the issuer may default on interest and/or principal payments is often referred to as credit risk. Credit risk is typically measured by ratings issued by ratings agencies such as Moody's and Standard & Poor's. Bonds issued by the U.S. Government have significantly less risk of default than those issued by corporations and municipalities (see below for a discussion of the risk associated with convertible securities). However, the overall return on Government bonds tends to be less than these other types of fixed-income securities. Finally, reinvestment risk is the possibility that the proceeds of a maturing investment must be invested in a lower yielding security, all other things held constant, due to changes in the interest-rate environment. Investors should pay careful attention to the types of fixed-income securities which comprise their portfolio, and remember that, as with all investments, there is the risk of the loss of capital.

To learn more about our actively managed income solutions, visit eagleasset.com

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