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LOW VOLATILITY FIXED INCOME

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June 5, 2019

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QUARTERLY LETTER

ZEO QUARTERLY LETTER: 1Q2019

Dear Clients:

Several months ago, the world was coming to an end. Remember that? Not long after, not a day went by in March without one or more financial news pundits warning investors of a "melt up" in the markets. And as we write this letter, the markets have shown signs of fatigue again. What changed? Is there really any difference between now and four months ago?

Economic fundamentals don't change nearly as quickly as predictions and projections, which have a way of zigging and zagging in response to every economic headline, big or small. Perhaps the largest material impact on fickle market convictions at the moment is coming from changes in expectations about tariffs on trade with China and Federal Reserve action on interest rates. The Fed seems to have broadcast to the market an expectation that any further rate increases will be put on hold. This emboldened investors to run the equity markets to all-time highs and to put further pressure on credit spreads, driving them back down to what we believe are unsustainably low levels. But the uncertainty around trade has provided offsetting pressure on equity markets, where long-term outlooks are deeply embedded in valuations.

Intertwined in both bullish and bearish arguments is much talk about cash on the sidelines. On the one hand, this is a reason given for a potential continued market rally. On the other hand, this could be a sign that investors are concerned about risks in the markets. So which is it? If the latter is indeed the prevailing view, the once and future market rallies of 2019 may be better explained by a potentially ill-advised fear of missing out (FOMO) than some foretelling of even better economic times to come. If the former, it may be worth trying to understand what it means to have cash on the sidelines in the first place.

The Money Stork

If you are reading this, unless you are a particularly precocious child, you know that babies aren't delivered by storks. However, we cannot deny the simplicity of such an answer to a complicated question when faced with the sincere eyes of a preschooler. Even so, it's hard to shake the nagging realization that all you've really done is kick the can down the road. Someday, this well-meaning delusion will come home to roost. So was the feeling as we asked ourselves partway through the most recent market rebound: "Where is all this money coming from?"

It's impossible to have managed money for the better part of the last three decades and not get the distinct feeling that something has been different this time around. For most of the last six years, every decline in the markets, big or small, seems to have been met with a near-certain recovery, often with a snapback even more violent than the drop that preceded it. Presumably, all

ABOUT US

Zeo Capital Advisors is a fixed income investment manager which aims to deliver low volatility, risk-managed solutions for the prudent investor.

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approach that we believe can help our clients lower volatility and improve risk metrics in their fixed income portfolios.

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ZEO FUNDS

Zeo Short Duration Income Fund

Zeo Sustainable Credit Fund

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OUR TEAM

We built the team with the same care we use to construct portfolios. Our team brings together decades of expertise across fundamental portfolio and risk management, credit analysis and client engagement.

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