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## Government Gridlock and Fixed Income Markets

We want to offer our perspective on the potential effects that the partial government shutdown and pending debt-ceiling limit might have on fixed income investments like those in our client portfolios.

First, you should know that the 6-day shutdown has so far had only a negligible impact on the yields of US Treasuries. For example, the yield on the 10-year Treasury bond has moved in only a narrow range since the October 1 shutdown began. At market close on Friday, October 4, the yield was 2.65%, the same as one week earlier. Even though we're in a highly charged political period, the portfolios we manage have not been significantly impacted. Although the shutdown has cut off spending on many federal programs, it does not directly affect the government's ability to make debt payments, on interest or repayment of principal.

The markets are understandably more concerned that Congress will not reach an agreement about lifting the national debt ceiling, which does directly influence the government's ability to make payments on its debt. The Treasury has identified October 17 as the date the government would exceed the debt ceiling, defined as the limit on the amount of money the federal government can borrow to pay its bills.

In our opinion, it is highly unlikely that Congress would allow the nation to default on its debts. We believe that in the meantime, however, both the stock and bond markets could experience volatility. Even if the debt ceiling is reached, the government has an obligation and the ability to pay bondholders ahead of other debts. We should note that Fannie Mae and Freddie Mac, while forced into conservatorship following the 2008 financial crisis, are now financially stable and can make their debt payments using earnings from their operations without assistance from the Treasury.

Rest assured that our investment team continually analyzes these issues and how they might play out in the markets. We have developed our strategies to perform well in a broad array of market environments. Our conservative investment philosophy, with its major emphasis on risk management, gives our team confidence that we are prepared to navigate the changing market dynamics, as we have for the past 25 years. Please call client service, your portfolio managers or me if you have questions, or if there is anything we can do to assist you during this period.

Thank you,



Martin Cassell, CFA  
CEO, Chief Investment Officer