



## FLASH REPORT

### *Newgate's Global Fixed Income Portfolio Update*

Across the globe, fixed income investments continued to slide as the US Federal Reserve gave little indication that it would stray from its "measured pace" of rate increases well into 2006. For October, the Newgate Global Fixed Income Portfolio declined 2.75% versus a loss of 1.31% for the Lipper Global Income Index and a loss of 1.82% for the Citigroup World Government Bond Index. Year-to-date, the Portfolio has shed 4.88% versus a decline of 6.8% for the World Bond Index.

Closed-end fund discounts widened further due to the continued Fed tightening, inflation concerns, rising leverage costs and the flood of new closed-end fund offerings - particularly "equity option" income funds. Less than 10% of all closed-end fixed income funds in our universe had positive returns in October. The leveraged funds, with longer maturity, suffered the most. The average discount for US taxable fixed income funds widened to 9.1% - a level not seen in years.

The US Commerce Department reported solid third quarter performance on real GDP with a 3.8% growth rate. Despite the signs of slowing in the housing sector and tightening financial conditions, post-hurricane business and service sector activity continued to expand, as reflected by the readings on the Institute for Supply Management's (ISM) manufacturing and non-manufacturing indexes. Inflation stayed muted, with the headline GDP price index up 3.1% in the third quarter. The core personal consumption expenditures index - the Fed's preferred measure of inflation - rose only 1.3% (on an annualized basis) and the CPI registered a 1.2% increase in September.

Positive economic news, coupled with falling gasoline prices, have failed to reinvigorate consumer confidence. The Conference Board's monthly survey declined to 85 in October from 87.5 in September. Some of the negativity may be finding its way into the housing sector. Sales of new homes rose only 2.1% in September and the increase was more than offset by the negative 3.2% revision to the August number. New mortgage applications fell by 7.4% to the lowest since May of this year.

Several factors influenced the global fixed income markets in October; the yield curve continued to flatten, the Lehman US Treasury index posted a 1.33% loss, US 10-year Treasury yields rose from 4.33% to 4.55%, spreads for high yields, emerging market debt and preferreds have widened slightly but on a year-to-date basis they are at historically low levels.

We remain confident in our asset allocation. Floating rate leveraged loans and high yield bonds remain the most attractive assets in the current interest rate environment. Our largest floating rate positions (ING Prime Rate Trust, Van Kampen Senior Income Trust and Eaton Vance Senior Income Trust) are now trading at more than a 9% discount from net asset value, with yields north of 6.8%. Discounts across high yield funds are averaging between 11% and 13%, with yields near 9%. We expect to see a significant narrowing of discounts going forward. The Portfolio is currently yielding 7.4%. Average quality remains at A-, with a maturity of 5.1 years and duration of just 2.5 years. ♦