## Third Quarter 2022

# Bond Market Commentary

The path of interest rates continues to march upward as the Federal Open Market Committee maintains the pace of their tightening stance. The commitment and steadfastness among FOMC members is furthered by economic data that has been affirming their position. Policy to date has not restricted our economy to a point that would cause a pause or a pivot in their actions.

It's about time. We believe the accommodative measures that have been in place for an unprecedented period must be removed. For the first time in over a decade, policy makers look to capitalize on a period of underlying strength and stability to restore a monetary system that in our opinion can not and should not operate in a low to zero interest rate environment. The cost of money should not be free in normalized periods. Removing easy money from the system will restore some order to the excessive risk taking in the marketplace that has created imbalances. With those imbalances removed, economies and markets will likely operate within more suitable parameters. Additionally, we believe savers, once penalized for not taking excessive risks, can now be rewarded and paid on more conservative investments. It is nice to see investors not being punished for being risk averse. As rates rise, fixed income investors will be increasingly better compensated.

Investors have seen negative price adjustments to the market value of their portfolios as this interest rate shift unwinds. Don't fret, celebrate. Baring any default, bonds will eventually mature at par and the invested yield and income will be achieved. We applaud the opportunity to lock in higher yields and income with new cash flows and maturities in portfolios as they come due. Higher yields equate to higher returns over time.

Where interest rates end up is debatable. Although the Fed is justified in their current policy stance, they do have a history of over doing it. We will be attuned to the data and any potential missteps. With that said, the positions we have established in RMB portfolios are structured with a conservative and higher quality stance. If indeed the Fed overdoes it, assets further down the risk spectrum will experience more volatility. By currently positioning up the quality spectrum, we would look to capitalize on opportunities once the cycle stabilizes.

Odds are the credit cycle is not done widening and future economic risks may not entirely be priced in. However, if by chance the Fed does engineer a soft landing, we will also be well positioned to add additional value to our portfolios when the pricing of risk reverses course.

Source: Bloomberg*

| Index Returns As of 9/30/2022 | Performance Period | | |
|---|---|---|---|
| Index | 3 Month | 6 Month | 1 Year |
| Bloomberg US Treasury Intermediate | -3.08 | -4.69 | -9.23 |
| Bloomberg Govt/Credit Intermediate | -3.06 | -5.36 | -10.14 |
| Bloomberg Intermediate Aggregate | -3.84 | -6.66 | -11.49 |
| | | | |
| Bloomberg US Treasury | -4.35 | -7.96 | -12.94 |
| Bloomberg Govt/Credit | -4.56 | -9.36 | -14.95 |
| Bloomberg Aggregate | -4.75 | -9.22 | -14.60 |
| Bloomberg US Treasury 20+ Year | -10.11 | -21.49 | -27.68 |
| | | | |
| Bloomberg Corporate | -5.06 | -11.95 | -18.53 |
| Bloomberg Corporate Intermediate | -3.11 | -6.92 | -12.30 |
| Bloomberg Corporate High Yield | -0.65 | -10.41 | -14.14 |
| | | | |
| Bloomberg Credit AAA | -7.02 | -14.67 | -21.43 |
| Bloomberg Credit AA | -5.78 | -12.68 | -19.07 |
| Bloomberg Credit A | -5.17 | -11.39 | -17.75 |
| Bloomberg Credit BAA | -4.80 | -12.22 | -19.01 |
| | | | |
| Bloomberg MBS | -5.35 | -9.14 | -13.98 |
| Bloomberg TIPS | -5.14 | -10.92 | -11.57 |
| Bloomberg Inter-Short Muni | -2.25 | -2.81 | -7.08 |

Source: Bloomberg

**Daily Generic Municipal Bond Yields as of 9/30/2022**

| Term | Maturity | AAA | AA | A | BAA |
|---|---|---|---|---|---|
| 1 Yr. | 2023 | 3.02 | 3.21 | 3.40 | 3.88 |
| 2 Yr. | 2024 | 3.05 | 3.25 | 3.45 | 3.90 |
| 3 Yr. | 2025 | 3.07 | 3.29 | 3.50 | 3.93 |
| 4 Yr. | 2026 | 3.08 | 3.32 | 3.55 | 3.95 |
| 5 Yr. | 2027 | 3.10 | 3.36 | 3.59 | 3.97 |
| 7 Yr. | 2029 | 3.13 | 3.40 | 3.63 | 3.99 |
| 9 Yr. | 2031 | 3.19 | 3.50 | 3.69 | 4.07 |
| 10 Yr. | 2032 | 3.24 | 3.57 | 3.74 | 4.12 |
| 12 Yr. | 2034 | 3.41 | 3.78 | 3.91 | 4.30 |
| 14 Yr. | 2036 | 3.51 | 3.96 | 4.04 | 4.44 |
| 15 Yr. | 2037 | 3.55 | 4.03 | 4.09 | 4.49 |
| 17 Yr. | 2039 | 3.61 | 4.12 | 4.14 | 4.55 |
| 19 Yr. | 2041 | 3.69 | 4.22 | 4.21 | 4.63 |
| 20 Yr. | 2042 | 3.70 | 4.25 | 4.22 | 4.64 |
| 25 Yr. | 2047 | 3.82 | 4.36 | 4.34 | 4.78 |
| 30 Yr. | 2052 | 3.19 | 3.93 | 3.72 | 4.33 |

Source: Bloomberg*

## Index Descriptions:

**Bloomberg US Intermediate Treasury Index** Unmanaged index includes all publicly issued, US Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have $250 million or more of outstanding face value.

**Bloomberg Intermediate Government/Credit Index**: Is an unmanaged index based on all publicly issued intermediate government and corporate debt securities with maturities of 1-10 years. This index represents asset types which are subject to risk, including loss of principal.

**Bloomberg Intermediate Aggregate Index:** Is an unmanaged index that consists of 1-10 year Governments, 1-10 year Corporates, all Mortgages, and all Asset-Backed securities within the Aggregate Index (i.e. the Aggregate Index less the Long Government/Corporate Index).

**Bloomberg U.S. Treasury Bond Index:** Is part of Bloomberg global family of government bonds indices. The index measures the performance of the U.S. Treasury bond market, using market capitalization weighting and a standard rule based inclusion methodology.

**Bloomberg Government/Credit Bond Index** Unmanaged index that tracks the performance of US Government and corporate bonds rated investment grade or better, with maturities of at least one year.

**Bloomberg U.S. Aggregate Bond Index:** Is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

**Bloomberg Indices U.S. Treasury 20+ Year Index:** Measures US dollar-denominated, fixed-rate nominal debt issues by the US Treasury with 20+ years to maturity.

**Bloomberg U.S. Credit Index:** Is composed of all publicly issued, fixed-rate, nonconvertible, investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included. Total return comprises price appreciation/depreciation and income as a percentage of the original investment.

**Bloomberg U.S. Intermediate Credit Index:** Measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. The index only includes securities with maturity between one and ten years. It is composed of the Bloomberg U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

**Bloomberg U.S. Corporate High Yield Index:** Is an unmanaged index that is comprised of issues that meet the following criteria: at least $150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity.

**Bloomberg Aaa Corporate Index:** measures the Aaa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**Bloomberg Aa Corporate Index:** measures the Aa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**Bloomberg Indices Government/Credit A+ Bond Index:** Unmanaged Index that tracks the performance of US Government and corporate bonds rated investment grade or better, with maturities of at least one year with a security rating of A or better.

**Bloomberg Baa Corporate Index:** measures the Baa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**Bloomberg U.S. Mortgage-Backed Securities Index**: Is an unmanaged index that tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by GNMA, FNMA, and FHLM.

**Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index:** Represents securities that protect against adverse inflation and provide a minimum level of real return. To be included in this index, bonds must have cash flows linked to an inflation index, be sovereign issues denominated in U.S. currency, and have more than one year to maturity, and, as a portion of the index, total a minimum amount outstanding of 100 million U.S. dollars. An individual cannot invest directly in an index.

**Bloomberg Municipal Bond Inter-Short 1-10 Year Index**: Is an unmanaged index of municipal bonds traded in the U.S. with maturities ranging from 1-10 years.



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