First Quarter 2022

Bond Market Commentary

Tightening monetary policy, inflation, supply chain disruption, Russian invasion…all a recipe for volatility in the marketplace. These events and the unfolding dynamics have driven yields higher and lowered return expectations in investment grade fixed income over the short-term.

Default risk free U.S. Treasury yields have risen across all maturities. Corporate bond credit yield spreads over U.S. Treasury yields have widened. Credit spreads of other structured products including mortgage-backed securities have widened as well. Municipal bond yields have increased across the board.

Despite the negative adjustment to the price of these securities due to the upward yield movements, they are all scheduled to mature at par value and pay their respective coupons. The yield at which they were purchased will be paid over the life of these bonds and a positive return on each individual security will result when held over their life cycle. The benefit of the current market and where yields stand is that new money, maturities, and cash flows from existing positions can now be invested at more attractive yield levels. These levels will increase the long run rate of return for a fixed income allocation. Rising yields should not be feared by fixed income investors, they should be revered.

In the months ahead, we will look to ease in and capitalize on the recent market movements. Particularly, we will likely attempt to capture more favorable yields in the corporate bond sector. Adding names with strong balance sheets that can stand the test of time will only improve the relative yield attributes for RMB portfolios. Prices may continue to be volatile in the corporate bond universe over near term, but the interest accruals and the yields they will be purchased at are now more attractive than they have been in some time.

The shift over the last several months in investment grade tax-exempt municipal bonds is also worth noting. They have greatly improved in relative value. Short to intermediate maturity municipal tax adjusted yield levels were appalling relative to U.S Treasury notes and high-quality corporate bond levels in the months leading into year end. We limited our purchases within that time period in those maturity ranges. As events unfolded throughout the quarter, the relative value in the areas we were eluding, improved dramatically. We were able to deploy capital at more attractive yield levels for RMB portfolios. Participating after the shift has boosted the overall captured portfolio yield.

Index Returns As of 3/31/2022	Performance Period		
Index	3 Month	6 Month	1 Year
Bloomberg US Treasury Intermediate	-4.21	-4.76	-4.17
Bloomberg Govt/Credit Intermediate	-4.51	-5.05	-4.10
Bloomberg Intermediate Aggregate	-4.69	-5.17	-4.38
Bloomberg US Treasury	-5.58	-5.41	-3.67
Bloomberg Govt/Credit	-6.33	-6.16	-3.85
Bloomberg Aggregate	-5.93	-5.92	-4.15
Bloomberg US Treasury 20+ Year	-11.01	-7.88	-1.15
Bloomberg Corporate	-7.69	-7.48	-4.20
Bloomberg Corporate Intermediate	-5.25	-5.78	-4.10
Bloomberg Corporate High Yield	-4.84	-4.16	-0.66
Bloomberg Credit AAA	-8.95	-7.93	-3.89
Bloomberg Credit AA	-7.86	-7.31	-4.07
Bloomberg Credit A	-7.30	-7.18	-4.29
Bloomberg Credit BAA	-7.94	-7.73	-4.16
Bloomberg MBS	-4.97	-5.33	-4.92
Bloomberg TIPS	-3.02	-0.73	4.29
Bloomberg Inter-Short Muni	-4.49	-4.39	-3.88

Source: Bloomberg

Daily Generic Municipal Bond Yields as of 3/31/2022

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2023	1.52	1.64	1.83	2.47
2 Yr.	2024	1.76	1.87	2.09	2.73
3 Yr.	2025	1.88	1.99	2.22	2.87
4 Yr.	2026	1.94	2.07	2.30	2.98
5 Yr.	2027	2.00	2.13	2.37	3.06
7 Yr.	2029	2.08	2.22	2.45	3.18
9 Yr.	2031	2.17	2.35	2.55	3.31
10 Yr.	2032	2.22	2.41	2.60	3.38
12 Yr.	2034	2.27	2.50	2.67	3.47
14 Yr.	2036	2.30	2.59	2.73	3.55
15 Yr.	2037	2.31	2.63	2.77	3.59
17 Yr.	2039	2.37	2.69	2.81	3.65
19 Yr.	2041	2.42	2.76	2.87	3.73
20 Yr.	2042	2.43	2.77	2.88	3.75
25 Yr.	2047	2.52	2.88	2.97	3.87
30 Yr.	2052	2.54	2.91	3.00	3.91

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 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 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. 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 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 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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