

# Fourth Quarter 2022 Bond Market Commentary

The fourth quarter of 2022 provided some modest relief for bond investors. Except for longer-term bonds, interest rates generally stabilized or dropped delivering positive returns for the quarter. While modest, the relief was welcome following the results of the first three quarters which all added up to the worst performance years for bonds in history. The yield curve offers the evidence necessary to understand the damage. According to Bloomberg, U.S. Treasury Bills rose by as much as 458 basis points while 5-, 10- and 30-year U.S. Treasuries rose by 274, 237, and 206 basis points, respectively.

Under these rare interest rate conditions, it is no surprise that the effective duration of each individual bond was the most impactful factor driving the degree of annual loss of each security. With the interest rate changes along the yield curve referenced above, the annual returns for U.S. Treasuries ranged from -3.2% for 2-year Notes to -37.1% for 30-year Bonds.\* The index performance chart highlights that shorter maturity (duration) bonds provided less negative returns than the longer maturity (duration) bonds.

Another important factor affecting bond returns were credit spreads. Credit spreads provide the difference in yield between two bonds of the same maturity but different credit quality. Changes in credit spreads result in profits when they narrow and losses when they widen.

Macro and micro economic conditions impact bond prices and credit spreads. In addition to the price impact of higher interest rates, some sectors of the credit market were impacted by wider (negative) credit spreads. Specifically, lower quality Single A and Triple B rated corporate bonds experienced wider credit spreads than higher quality Triple A and Double A credit spreads.\* This most likely is the result of higher interest rates directed by the Federal Reserve to slow the economy and lower inflation. The increasing possibility of a slowing economy becoming a recession would help explain these conditions.

Until the Federal Reserve ends tightening monetary conditions, both interest rate and credit spread volatility will remain.

In general, municipal bonds performed better than taxable bonds. Rising interest rates offering much more attractive income and the weakening stock market drove investors to the safety and security of these bonds. This higher demand together with limited supply of new issues provided support to this sector.

While 2022 saw bond prices fall as interest rates rose, maintaining these bonds to maturity will bring prices back to par. Bond investors will benefit from higher interest rates as they reinvest in current issues offering much higher yields. After such a long period of Federal Reserve driven low interest rates, patient bond investors can look forward to a period of higher expected returns.

\*Source: Bloomberg

Index Returns (%) As of 12/31/2022	Performance Period		
	3 Month	6 Month	1 Year
<b>Bloomberg U.S. Treasury Intermediate</b>	1.02	-2.09	-7.77
<b>Bloomberg Govt/Credit Intermediate</b>	1.54	-1.57	-8.23
<b>Bloomberg Intermediate Aggregate</b>	1.72	-2.19	-9.51
<b>Bloomberg U.S. Treasury</b>	0.72	-3.66	-12.46
<b>Bloomberg Govt/Credit</b>	1.80	-2.84	-13.58
<b>Bloomberg Aggregate</b>	1.87	-2.97	-13.01
<b>Bloomberg U.S. Treasury 20+ Year</b>	-1.36	-11.33	-31.09
<b>Bloomberg Corporate</b>	3.63	-1.61	-15.76
<b>Bloomberg Corporate Intermediate</b>	2.72	-0.47	-9.40
<b>Bloomberg Corporate High Yield</b>	4.17	3.50	-11.19
<b>Bloomberg Credit AAA</b>	2.56	-4.64	-20.32
<b>Bloomberg Credit AA</b>	2.80	-3.14	-17.29
<b>Bloomberg Credit A</b>	3.31	-2.04	-15.15
<b>Bloomberg Credit BAA</b>	4.07	-0.92	-15.90
<b>Bloomberg MBS</b>	2.14	-3.32	-11.81
<b>Bloomberg TIPS</b>	2.04	-3.21	-11.85
<b>Bloomberg Inter-Short Muni</b>	2.87	0.55	-4.51

Source: Bloomberg

## Daily Generic Municipal Bond Yields (%) as of 12/31/2022

Term	Maturity	AAA	AA	A	BAA
<b>1 Yr.</b>	2024	2.80	2.95	3.21	3.73
<b>2 Yr.</b>	2025	2.66	2.81	3.06	3.58
<b>3 Yr.</b>	2026	2.56	2.72	2.97	3.49
<b>4 Yr.</b>	2027	2.55	2.73	2.97	3.49
<b>5 Yr.</b>	2028	2.53	2.73	2.97	3.47
<b>7 Yr.</b>	2030	2.54	2.78	3.01	3.47
<b>9 Yr.</b>	2032	2.58	2.84	3.07	3.50
<b>10 Yr.</b>	2033	2.62	2.91	3.14	3.55
<b>12 Yr.</b>	2035	2.82	3.15	3.36	3.75
<b>14 Yr.</b>	2037	3.02	3.41	3.60	3.98
<b>15 Yr.</b>	2038	3.09	3.51	3.70	4.06
<b>17 Yr.</b>	2040	3.16	3.60	3.75	4.11
<b>19 Yr.</b>	2042	3.23	3.70	3.83	4.19
<b>20 Yr.</b>	2043	3.26	3.72	3.85	4.21
<b>25 Yr.</b>	2048	3.47	3.94	4.06	4.42
<b>30 Yr.</b>	2053	3.57	4.07	4.17	4.53

Source: Bloomberg

# Fourth Quarter 2022

## Bond Market Commentary

### Index Descriptions:

**Bloomberg U.S. Intermediate Treasury Index** Unmanaged index includes all domestic publicly issued, U.S. 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 domestic securities with maturities of 1-10 years.

**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 domestic 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 domestic 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 U.S. Government and corporate domestic 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 domestic 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.

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

**Bloomberg U.S. Credit Index:** Is composed of all domestic 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.

**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 domestic 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 domestic 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 domestic corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-US industrial, utility and financial issuers.

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

**Bloomberg Government/Credit A+ Bond Index:** Unmanaged index that tracks the performance of U.S. Government and corporate domestic 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 U.S. and non-US industrial, utility and financial issuers.

**Bloomberg U.S. Mortgage-Backed Securities Index:** Is an unmanaged index that tracks domestic 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 domestic 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.

**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.

*The opinions and analyses expressed in this presentation are based on RMB Capital Management, LLC's ("RMB Capital") research and professional experience as of the date of this presentation. Certain information expressed represents an assessment at a specific point in time and is not intended to be a forecast or guarantee of future performance, nor is it intended to speak to any future time periods. RMB Capital makes no warranty or representation, express or implied, nor does RMB Capital accept any liability, with respect to the information and data set forth herein, and RMB Capital specifically disclaims any duty to update any of the information and data contained in this presentation. The information and data in this presentation does not constitute legal, tax, accounting, investment, or other professional advice. Past performance is not indicative of future performance, and there is a risk of loss of all or part of your investment. This information is confidential and may not be reproduced or redistributed to any other party without the permission of RMB Capital. RMB Asset Management is a division of RMB Capital Management.*

*An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not bear fees, taxes, or transaction costs. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and types of securities held by the strategies. The benchmarks are shown for comparison purposes and are fully invested and include the reinvestment of income.*