First Quarter 2023

Bond Market Commentary

Compared to the start of first quarter last year, first quarter fixed income returns this year produced much more favorable results. The composition of returns was twofold. The first contributor has been the much higher income accruals. Interest rates are now at levels that are producing reasonable income returns! The second contributor was the downward shift in interest rates seen in March.

Headline risks brought about by questionable balance sheet management at several regional banks created angst in the banking sector and the market overall that led to a "risk off" tone in the marketplace. That risk off tone rallied interest rates, particularly in U.S. Treasuries, in a flight to quality. The rally in interest rates especially in the front end of the yield curve was quite profound. Not only did fixed income investors get income, but returns were further supported by the appreciation of value in their holdings.

Although credit markets were impacted temporarily and we did experience a widening of credit spreads, that volatility was short lived. The financial sector though did not rebound as much as other sectors of the market as there are still some lingering concerns over what this higher interest rate environment has done to balance sheets and overall profitability.

Furthermore, inflation is still running high although it appears to be moderating. These price pressures coupled with fringe evidence of a slowing economy means the Federal Reserve may be walking a tight rope. They must prevent a further increase in price pressures at the same time navigate preventing a more severe economic slowdown or recession in their commitment to fight the ongoing inflation.

Our expectation is that volatility may increase as the push and pull between these two forces generates a dichotomy of opinion on the directionality of interest rates and credit spreads for the remainder of the year.

With volatility comes opportunity. In the interim, RMB portfolios have been structured to be fairly neutral relative to our target benchmarks. Uncertainty is driving market behavior with no apparent extreme currently unfolding. We have remained and will continue to remain up in quality in our credit holdings, corporate and municipal alike. We do not believe investors are adequately compensated in the marketplace for going down the risk spectrum in the investment grade fixed income space. As volatility increases, we will add to credit and reduce our U.S. Treasury exposures opportunistically. Until then, we believe the new allocations and cash flows will continue to conservatively capture far more attractive yields than we have seen over the last decade for our clients.

Index Returns (%) As of 3/31/2023	Performance Period		
Index	3 Month	6 Month	1 Year
Bloomberg U.S. Treasury Intermediate	2.27	3.31	2.27
Bloomberg Govt/Credit Intermediate	2.33	3.91	2.33
Bloomberg Intermediate Aggregate	2.38	4.15	2.38
Bloomberg U.S. Treasury	3.00	3.75	3.00
Bloomberg Govt/Credit	3.17	5.02	3.17
Bloomberg Aggregate	2.96	4.89	2.96
Bloomberg U.S. Treasury 20+ Year	6.56	5.12	6.56
Bloomberg Corporate	3.50	7.26	3.50
Bloomberg Corporate Intermediate	2.50	5.29	2.50
Bloomberg Corporate High Yield	3.57	7.89	3.57
Bloomberg Credit AAA	5.03	7.72	5.03
Bloomberg Credit AA	3.95	6.86	3.95
Bloomberg Credit A	3.31	6.73	3.31
Bloomberg Credit BAA	3.57	7.79	3.57
Bloomberg MBS	2.53	4.72	2.53
Bloomberg TIPS	3.34	5.45	3.34
Bloomberg Inter-Short Muni	1.84	4.76	1.84

Source: Bloomberg

Daily Generic Municipal Bond Yields (%) as of 3/31/2023

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2024	2.45	2.57	2.97	3.38
2 Yr.	2025	2.39	2.49	2.89	3.32
3 Yr.	2026	2.28	2.38	2.78	3.22
4 Yr.	2027	2.22	2.33	2.74	3.19
5 Yr.	2028	2.20	2.33	2.75	3.19
7 Yr.	2030	2.20	2.37	2.79	3.20
9 Yr.	2032	2.21	2.43	2.84	3.20
10 Yr.	2033	2.26	2.50	2.90	3.24
12 Yr.	2035	2.48	2.76	3.15	3.46
14 Yr.	2037	2.78	3.10	3.48	3.78
15 Yr.	2038	2.86	3.21	3.59	3.88
17 Yr.	2040	2.94	3.29	3.66	3.94
19 Yr.	2042	3.03	3.39	3.76	4.03
20 Yr.	2043	3.05	3.43	3.79	4.06
25 Yr.	2048	3.24	3.68	3.98	4.25
30 Yr.	2053	3.31	3.82	4.06	4.33

Source: Bloomberg

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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: Broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index with less than 10 years to maturity. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.
Bloomberg Intermediate Aggregate Index: Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market with less than 10 years to maturity. The securitized sector is wholly included. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.
Bloomberg U.S. Treasury Bond Index: Is part of the 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 U.S. Government/Credit Bond Index: Broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.
Bloomberg U.S. Aggregate Bond Index: Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).
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: Composed of all domestic publicly issued, fixed-rate, nonconvertible, and 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 Barclays 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: 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-U.S. 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-U.S. 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-U.S. industrial, utility and financial issuers.
Bloomberg U.S. Mortgage-Backed Securities Index: 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: Unmanaged index of municipal bonds traded in the U.S. with maturities ranging from 1-10 years.