

TAXABLE BOND MARKET

▶ The Fed's strident commitment to taming inflation amid a historically tight labor market suggests the era of higher rates may persist for some time. Volatility is likely to remain elevated as a result, given investors' heightened sensitivity to signs of an inflection in price pressures or global growth. Any further impairments to global supply chains or energy markets could also exacerbate already acute shortages and further complicate the monetary authorities' reaction functions.

AUGUST 2022 REVIEW

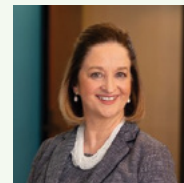
Fixed income markets resumed their year-to-date slide in August, relinquishing July's gains as investors showed less confidence in a "Fed pivot" following hawkish commentary from various Fed officials. Economic data was mixed, as modestly positive signs from the labor market and the consumer were met with evidence of deterioration in the housing market and the manufacturing sector. Sentiment was also weighed down by simmering geopolitical tensions in Asia and a burgeoning energy crisis in Europe.

FED

Fed Chair Powell delivered brief but pointed remarks in his appearance at the Jackson Hole symposium, suggesting a protracted period of restrictive monetary policy. He emphasized the strength of the Fed's resolve in lowering inflation and acknowledged that more restrictive policy could result in "pain" for households and companies. The commentary suggested a narrower path toward an eventual "soft landing," with fed funds futures reflecting sharply lower odds of substantive rate cuts in 2023.

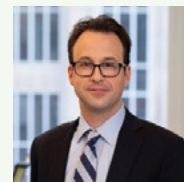
INTEREST RATES

The Treasury curve experienced a significant bear flattening. Rates at the front end shifted higher in anticipation of higher-for-longer Fed policy, while intermediate and long rates were relative outperformers on the prospect of slower economic growth and constrained inflation. Real yields moved sharply higher in anticipation of tighter financial conditions, while inflation breakevens were essentially unchanged.



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TAXABLE BOND MARKET *continued*

CREDIT

Corporate spreads were little changed on the month, despite a solid mid-month rally, as recession concerns ultimately tempered investors' risk appetite. Among the best-performing sectors were those exposed to discretionary spending, as well as Energy and Materials, while names exposed to the more Health Care sector were relative laggards. The Investment Grade primary saw robust interest and new issues were well subscribed, while activity in the High Yield primary remained subdued.

MBS

The mortgage-backed securities (MBS) sector underperformed similar-duration Treasuries as spreads widened throughout the month. Monetary policy uncertainty drove rate volatility higher and exerted upward pressure on spreads. Mortgage traders were comforted by the absence of any mention of the Fed's mortgage holdings during Chair Powell's speech; without outright sales, organic MBS run-off is likely to be muted given the backdrop of higher mortgage rates and the slower pace of refinancing.

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US TREASURY MARKET

August 31, 2022

Maturity	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-Year	3.50%	+61	+54	+276	-0.82%	-0.47%	-3.51%
5-Year	3.35%	+67	+31	+208	-2.71%	-0.99%	-8.07%
10-Year	3.20%	+55	+18	+169	-3.94%	-0.91%	-12.51%
30-Year	3.30%	+29	+11	+139	-4.41%	-1.83%	-24.97%

Sources: Bloomberg, FactSet
Performance represents total returns of the Bloomberg US Treasury Bellwethers Index for the maturities shown

INDEX CHARACTERISTICS AND PERFORMANCE

August 31, 2022

CHARACTERISTICS

Index	Yield to Worst	OAD (Years)	OAS (bps)	MTD	QTD	YTD
Bloomberg US Aggregate Bond	3.96%	6.36	50	-2.83%	-0.45%	-10.75%
US Treasury	3.42%	6.36	-1	-2.48%	-0.93%	-9.98%
Bloomberg US Government Related	4.00%	5.37	57	-2.06%	-0.43%	-9.57%
Bloomberg US Corporate Investment Grade	4.83%	7.47	140	-2.93%	0.21%	-14.21%
Bloomberg US Mortgage-Backed Securities	3.96%	5.76	40	-3.42%	-0.31%	-9.07%
Bloomberg US Asset-Backed Securities	4.12%	2.22	62	-0.66%	-0.18%	-3.94%
ICE BofA Fixed Rate Preferred Securities	6.19%	5.51	208	-3.38%	2.55%	-11.73%
Bloomberg High Yield	8.42%	4.11	484	-2.30%	3.46%	-11.22%
Bloomberg High Yield — BB	6.86%	4.52	331	-2.92%	3.00%	-11.28%
Bloomberg High Yielded — B	8.69%	3.75	507	-2.27%	3.57%	-10.83%
Bloomberg High Yield — CCC	13.88%	3.44	1028	0.07%	5.02%	-12.15%
Bloomberg High Yield BB 1 – 5 Year	6.77%	2.59	310	-1.83%	2.53%	-6.59%

Source: FactSet

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