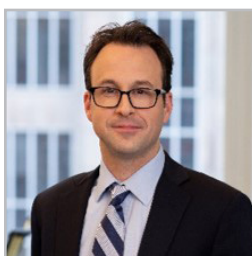




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## GW&K CURRENT OUTLOOK AND POSITIONING

Despite near-term uncertainty surrounding the Omicron variant, we remain constructive in our outlook for the economy. Our base case is that less accommodative policies from the Federal Reserve will limit inflation fears while leaving the broader recovery on track. We seek rates as likely to shift higher over the next year, but anticipate limited impact beyond a technical influence on spreads, given strong underlying fundamentals.

## DECEMBER 2021 REVIEW

The fixed income market generated a small loss in December, as rates rose in response to the “hawkish pivot” from the Fed. Sentiment proved resilient in the face of surging COVID-19 cases following the emergence of the Omicron variant. Investors also seemed largely comfortable looking past inflation readings at multi-decade highs and mixed data from the labor market.

### Monetary Policy

The Fed confirmed a more hawkish policy stance at their December meeting. Chair Powell effectively retired the word “transitory” with regard to inflation and guided toward less accommodative financial conditions going forward. The pace of the asset-purchase tapering was doubled and three hikes were projected for 2022, bringing the Fed’s guidance in line with futures market expectations.

### Interest Rates

Treasury yields rose across the curve in anticipation of a more aggressive path of rate hikes. Yields at the short end reached a pre-pandemic high. Intermediate and long rates rose only slightly, suggesting little concern about elevated inflation readings. In fact, breakevens were well anchored and remain meaningfully below recent highs.

### Credit

Credit staged a decent rally during a seasonally light trading month. Sentiment benefited from a broad risk-on tone as well as upbeat messaging from the Fed. Technicals were also favorable amid a sharp slowdown in a new issuance, while fundamentals remained robust with corporations awash in liquidity and financial distress vanishingly hard to find.

### Mortgages

The MBS sector outperformed Treasuries, aided by a favorable technical environment. A seasonal slowdown in originations and a drop in rate volatility more than offset the accelerated taper timeline, driving spreads tighter. The rate environment was supportive of higher coupon pools relative to lower coupon cohorts, which were further pressured by their outsized ownership by the Fed.

### U.S. Treasury Market - December 31, 2021

Maturity	12/31/21	Yield Change (bps)			Performance		
	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-year	0.74%	+17	+46	+62	-0.23%	-0.53%	-0.57%
5-year	1.27%	+11	+30	+91	-0.33%	-0.90%	-2.80%
10-year	1.51%	+6	+2	+59	-0.40%	0.67%	-3.60%
30-year	1.91%	+11	-14	+26	-2.06%	4.70%	-4.62%

Source: Bloomberg, FactSet

Performance represents total returns of the Bloomberg U.S. Treasury Bellwethers Index for the maturities shown

## INDEX CHARACTERISTICS AND PERFORMANCE

December 31, 2021	CHARACTERISTICS			PERFORMANCE		
Index	Yield to Worst	OAD (Years)	OAS (bps)	MTD	QTD	YTD
Bloomberg U.S. Aggregate Bond	1.75%	6.78	36	-0.26%	0.01%	-1.54%
U.S. Treasury	1.23%	7.14	0	-0.51%	0.18%	-2.32%
Bloomberg U.S. Government Related	1.64%	6.10	44	-0.13%	0.00%	-1.29%
Bloomberg U.S. Corporate Investment Grade	2.33%	8.70	92	-0.08%	0.23%	-1.04%
Bloomberg U.S. Mortgage-Backed Securities	1.98%	4.76	31	-0.09%	-0.37%	-1.04%
Bloomberg U.S. Asset-Backed Securities	1.13%	2.33	38	-0.16%	-0.57%	-0.34%
ICE BofA Fixed Rate Preferred Securities	2.74%	4.68	113	2.00%	0.03%	2.24%
Bloomberg High Yield	4.21%	3.83	283	1.87%	0.71%	5.28%
Bloomberg High Yield - BB	3.30%	4.59	194	1.82%	0.75%	4.61%
Bloomberg High Yield - B	4.57%	3.05	313	1.96%	0.84%	4.85%
Bloomberg High Yield - CCC	6.82%	2.73	549	1.90%	0.54%	8.59%
Bloomberg High Yield BB 1-5 Year	2.61%	2.27	170	1.26%	0.65%	4.11%

Source: FactSet

### Disclosures

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