

TAXABLE BOND MARKET

DECEMBER 2022 REVIEW

Fixed income markets were slightly weaker in December. Rates initially rallied on signs of a downshift in inflation and labor costs, but bounced following a hawkish FOMC meeting. The labor market and consumer sectors remained resilient, even as housing activity continued to trend lower.

FED

The FOMC hiked the overnight rate by 50 basis points for the month of December, and increased projections that rates will end 2023 up 50 basis points at 5.125% (**Chart 1**). The futures market registered little change in response, pricing in a terminal rate of 5% in June and then two cuts through year end.

INTEREST RATES

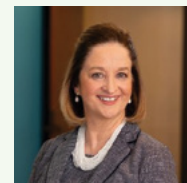
Rates across the curve rose sharply as central banks around the world pursued tighter financial conditions. Short rates rose on unexpectedly hawkish rhetoric from the Fed, while longer rates were lifted by a jump in real yields.

CREDIT

Investment-grade credit spreads were marginally tighter and closed at their lowest levels since April amid a typical seasonal lull in activity (**Chart 2**). High-yield spreads widened only slightly and were largely immune to the volatility in the stock market as, here too, the primary market was effectively closed (**Chart 3**).

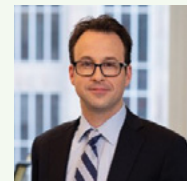
MBS

Mortgage-backed securities outperformed similar duration Treasuries amid the selloff in rates. The sector benefited from a positive technical environment with origination continuing to fall and overseas demand increasing. Rate volatility was relatively benign, contributing to the stability in spreads (**Chart 4**).



MARY F. KANE, CFA

*Partner
Taxable Bond Portfolio Manager*

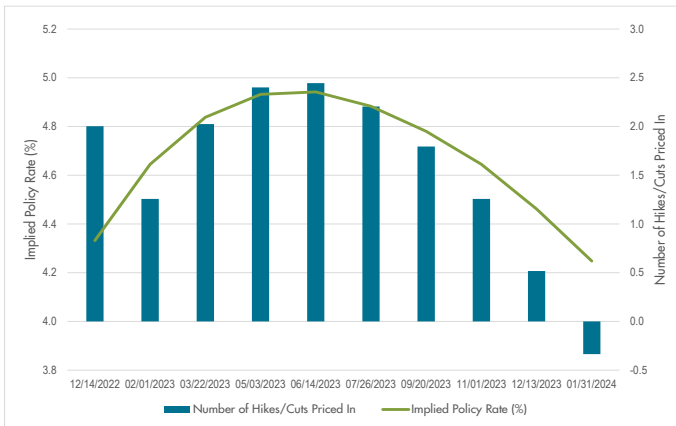


STEPHEN J. REPOFF, CFA

*Principal
Taxable Bond Portfolio Manager*

CHART 1

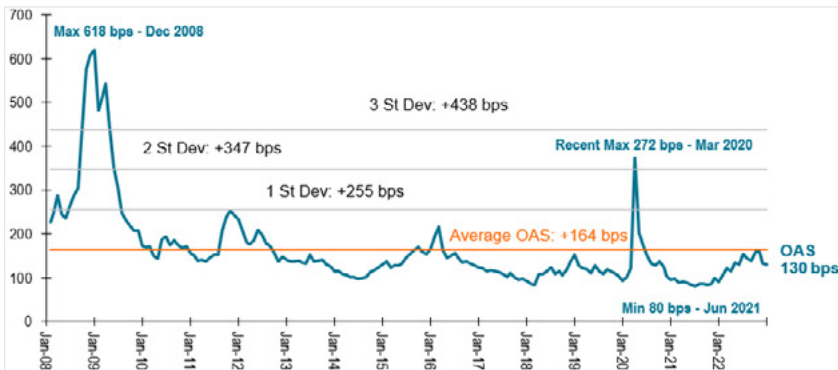
Implied Overnight Rate & Number of Hikes/Cuts



Source: Bloomberg

CHART 2

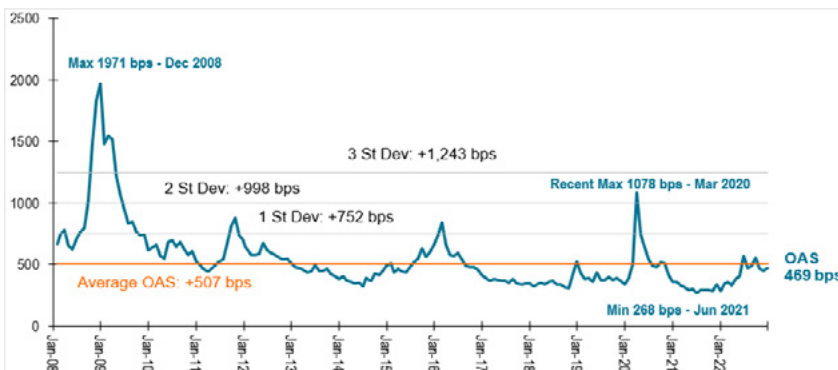
Investment-Grade Corporate Bond Option Adjusted Spread



Source: Bloomberg

CHART 3

High-Yield Corporate Bond Option Adjusted Spread



Source: Bloomberg

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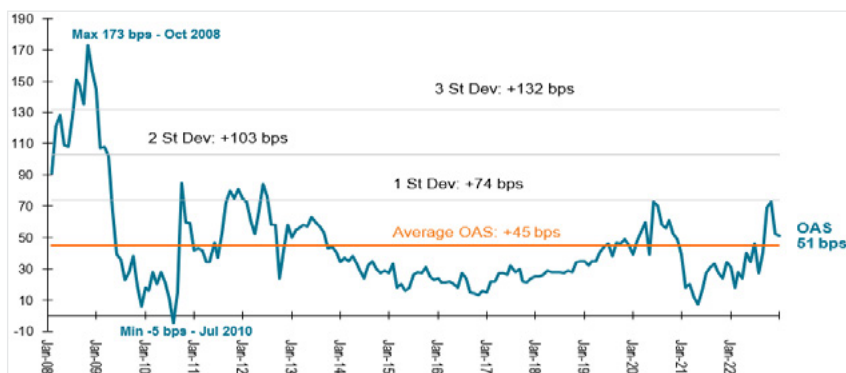
www.gwkinvest.com

Boston Headquarters
222 Berkeley Street
Boston, Massachusetts 02116
617.236.8900

Other Locations
New York, New York
Winter Park, Florida

CHART 4

Mortgage-Backed Securities Option Adjusted Spread



Source: Bloomberg

US TREASURY MARKET

December 31, 2022

Maturity	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-Year	4.43%	+12 bps	+15 bps	+369 bps	0.56%	0.37%	-4.23%
5-Year	4.01%	+27 bps	-9 bps	+274 bps	2.17%	1.62%	-9.34%
10-Year	3.88%	+27 bps	+4 bps	+237 bps	3.72%	1.79%	-15.36%
30-Year	3.97%	+23 bps	+19 bps	+206 bps	7.19%	-0.15%	-31.59%

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

INDEX CHARACTERISTICS AND PERFORMANCE

December 31, 2022

Index	CHARACTERISTICS					
	Yield to Worst	OAD (Years)	OAS (bps)	MTD	QTD	YTD
Bloomberg US Aggregate Bond	4.68%	6.17	51	-0.45%	1.87%	-13.01%
US Treasury	4.18%	6.09	0	-0.52%	0.72%	-12.46%
Bloomberg US Government Related	4.76%	5.22	57	-0.30%	1.86%	-11.09%
Bloomberg US Corporate Investment Grade	5.42%	7.10	130	-0.44%	3.63%	-15.76%
Bloomberg US Mortgage-Backed Securities	4.71%	5.81	51	-0.44%	2.14%	-11.81%
Bloomberg US Asset-Backed Securities	5.14%	2.86	76	0.66%	0.81%	-4.30%
ICE BofA Fixed Rate Preferred Securities	7.05%	5.67	227	-1.92%	0.16%	-14.60%
Bloomberg High Yield	8.96%	3.88	469	-0.62%	4.17%	-11.19%
Bloomberg High Yield — BB	7.21%	4.26	295	-0.45%	4.31%	-10.80%
Bloomberg High Yielded — B	9.21%	3.56	489	-0.81%	4.93%	-10.26%
Bloomberg High Yield — CCC	14.26%	3.36	1008	-0.90%	0.51%	-16.29%
Bloomberg High Yield BB 1 – 5 Year	7.18%	2.52	271	-0.14%	3.56%	-5.30%

Source: FactSet

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