

LOGAN FIXED INCOME MARKET COMMENTARY Q2 | 2023 REVIEW

MARKET ENVIRONMENT

We do not expect a whole lot of movement in long-term Treasury yields in the second half of this year. The Fed has said it is likely to hike twice, which currently is more than the market is anticipating. But long-term yields are sensitive to inflation expectations, and since any tightening beyond what is currently expected will be aimed at keeping inflation on a downward track, the Fed's willingness to continue lifting rates will ultimately keep long-term yields from breaking higher.

Inflation has been falling on a year-on-year basis, but that will change in the next couple of months, as base effects, which have pulled core inflation lower since March, flip the other way this summer. Base effects are the things a year ago that affect year-on-year calculations. For example, we saw the first drop in the price of oil last July (source: Bloomberg), reflecting its first decrease since the Russian invasion of Ukraine (I clearly remember the peak in gas prices last June). As we advance to the end of the year, we will be closely monitoring the improvements

in inflation expected by the Federal Reserve.

PORTFOLIO REVIEW

Treasuries

As mentioned above, we do not anticipate long-term yields increasing significantly from current levels. As of this writing, the 10-year U.S. Treasury yield is 3.82%, currently between a high of 4.06% reached on March 6 and a low of 3.31% reached on April 6 -- now that was an exciting month (source: Bloomberg).

The Fed is on high alert against increases in inflation expectations and will continue increasing the Fed Funds rate until PCE moves significantly closer to their target of 2.0%.

We increased the duration and maintained the approximate Treasuries allocation recently. With the curve inversion currently back to the "high" reached in early March, we are slowly increasing the bulleted term structure in anticipation of the yield curve finally regaining a positive slope in 2024.

Corporates

Spreads had increased approximately 20 basis points during the quarter before settling back to their original level (source: FactSet). It feels like the level is being influenced by the rising equity markets as opposed to reflecting an impending recession.

In the corporate sector, we have been monitoring our global macro indicators, watching for clues regarding the timing and depth of a slowdown in economic activity. By keeping credit quality high, issue size large, and maturities shorter versus the index, we have felt comfortable increasing the sector allocation while maintaining a defensive profile.

Municipals

We anticipate supply will lag demand this summer which will benefit municipal investors. This technical force is the opposite of what happens ahead of the mid-April tax deadline when investors sell municipal bonds to fund their tax payments.

Fundamentally, we are tracking the impact on local governments of empty office buildings and office parks on property tax revenue. Early during COVID, skyrocketing residential property values led to an increase in property tax revenue for local governments. Recently, this has moderated. Cities with central business districts are feeling (and seeing) the impact of WFH.

From S&P, "We believe that cities that don't see RTO trends moving in the right direction are more susceptible to a downward spiral of a reduction in both tax revenue and attractiveness of downtowns and are at the greatest risk of experiencing pressures to credit stability," the report said.

We have not observed any weakening in the relative value within the sector as a percentage of Treasuries.

Oil

Year-to-date and quarter-to-date WTI prices have declined slightly, allegedly due to China's slower than expected rebound from their zero-COVID policy. OPEC+ has pushed for supply cuts across the board—Iran, Libya, and Venezuela had been exempted from production cuts—to support prices. Recent discussions between the U.S. and Iran have added to the challenge for OPEC, as Iranian production has increased. Iran has worked with countries like China to evade U.S. and Group of Seven sanctions (Russia does the same). Layer on allegations the U.S. has turned a blind eye due to concerns over

spiking oil prices and the global soap opera continues. Will China's reopening boost demand? Will a recession in the U.S. and in other developed economies present downward risk for oil demand?

PORTFOLIO OUTLOOK

Beneath the surface, there are signs of a pullback in U.S. consumer spending. U.S. paper mills are trimming production of cardboard, used at nearly every step of a product's journey through the supply chain. That makes the paper industry a key indicator of consumer demand. Shipments of empty boxes tumbled 11% from a year ago in March, according to Fibre Box Association data compiled by Bloomberg.

One formidable sector of the economy that is on the rebound is new home construction. A year ago, it was detracting from GDP, more recently, it should boost economic growth. While reasonable thinking would conclude that higher mortgage rates would dampen the enthusiasm of new home builders, their strong sentiment, higher than expected new home starts and new home sales, mean new residential housing will contribute to GDP for the next few quarters.

The market has consistently underestimated the Fed's resolve to fight inflation since the tightening was initiated in March 2022. We anticipate the tightening discussion will continue within the Fed over the summer, further pushing back any hint of cutting rates until 2024. We continue to watch the PCE

price index, as well as our global indicators, squinting through the haze, on alert for that elusive.....2.0% inflation target.

*This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied. Information is based on data gathered from what we believe are reliable sources. It is not guaranteed as to accuracy, does not purport to be complete and is not intended to be used as a primary basis for investment decisions. It should also not be construed as advice meeting the particular investment needs of any investor. **Past performance does not guarantee future results.***

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

Asset Allocation does not guarantee a profit or protect against a loss in a declining

market. It is a method used to help manage investment risk.

Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices does not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.

West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

The PCE price index (PCEPI), also referred to as the PCE deflator, PCE price deflator, or the Implicit Price Deflator for Personal

Consumption Expenditures (IPD for PCE) by the BEA, and as the Chain-type Price Index for Personal Consumption Expenditures (CTPIPCE) by the Federal Open Market Committee (FOMC), is a United States-wide indicator of the average increase in prices for all domestic personal consumption. It is benchmarked to a base of 2012 = 100. Using a variety of data including U.S. Consumer Price Index and Producer Price Index prices, it is derived from the largest component of the GDP in the BEA's National Income and Product Accounts, personal consumption expenditures.

U.S. TREASURY YIELDS	12/31/2022	3/31/2023	9/30/2023	YTD Change
2 YR	4.420%	4.065%	4.870%	-0.806%
3 YR	4.236%	3.830%	4.490%	-0.660%
5 YR	4.004%	3.608%	4.129%	-0.522%
7 YR	3.968%	3.563%	3.972%	-0.409%
10 YR	3.878%	3.495%	3.810%	-0.315%
20 YR	4.142%	3.822%	4.064%	-0.242%
30 YR	3.970%	3.688%	3.854%	-0.166%
10S MINUS 2S	-54.2bps	-57.0bps	-106.0bps	

Source: FactSet