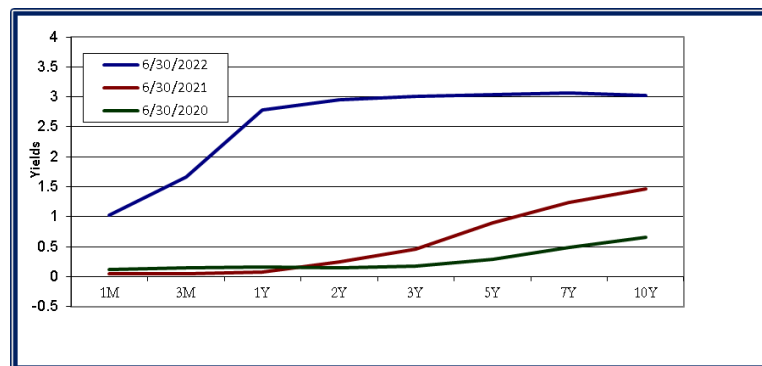


IN BRIEF: The U.S. Fixed Income Markets, Performance, and Strategy

After several years of bond yields below 1.5%, the yield curve has shifted upwards throughout the first half with the 10-year Treasury now above 3%. This positions bonds to better satisfy investment goals by providing income generation and preservation of principal. Investors are once again becoming comfortable returning to bonds taking the opportunity to lock in yields. It's important to note that the curve beyond the 1-year remains quite flat, limiting the risk/return benefit past intermediate issues.

Treasury Yield Curve

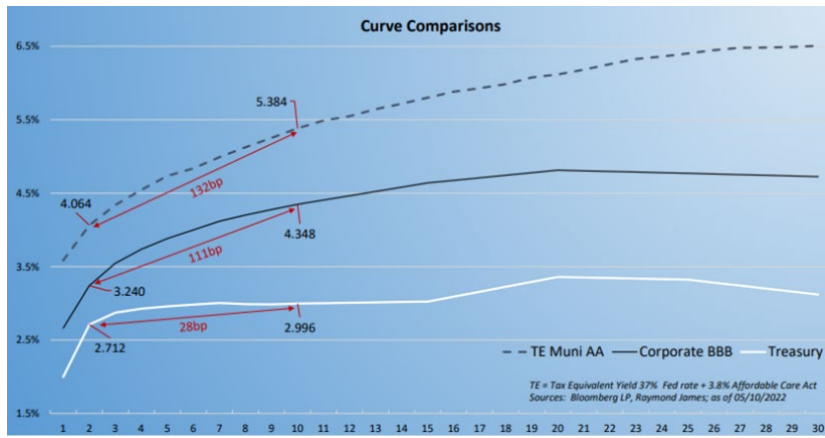


Source: Bloomberg and Altman Investment Management

The Federal Reserve, under Chairman Powell, is not unfamiliar with pivoting. Therefore, keeping a close eye on commodity prices and inflation expectations is prudent to help understand the potential for any shifts in policy in the coming months. The Fed has regained some confidence as it dealt aggressive rate hikes raising rates 225 points during the year. As the second half unfolds, crude oil prices have fallen below \$95 a barrel, gold is trading down approximately 10% and most agriculture commodities are significantly lower than their Q1 peaks. The core Consumer Price Index rose 0.3% in July and 5.9% on an annual basis. Likewise, the core Personal Consumption Expenditures, the inflation measure preferred by the Fed, rose just 0.1% in July or 4.6%. Both indices are still significantly elevated as compared to pre-covid levels but have turned over since peaking earlier in the year.

The flattening of the Treasury yield curve more recently is the result of rising yields on the short end, in response to Fed tightening, and indicates future rate hikes are potentially being priced in. The Fed's goal is to raise rates to combat inflation without stifling economic growth. If the economy slows too much too fast it could trigger a pivot in policy. Another source of uncertainty is any development in the Russian/ Ukraine War and the impacts on supply levels, the functionality of trading ports, plus potential fallouts from sanctions.

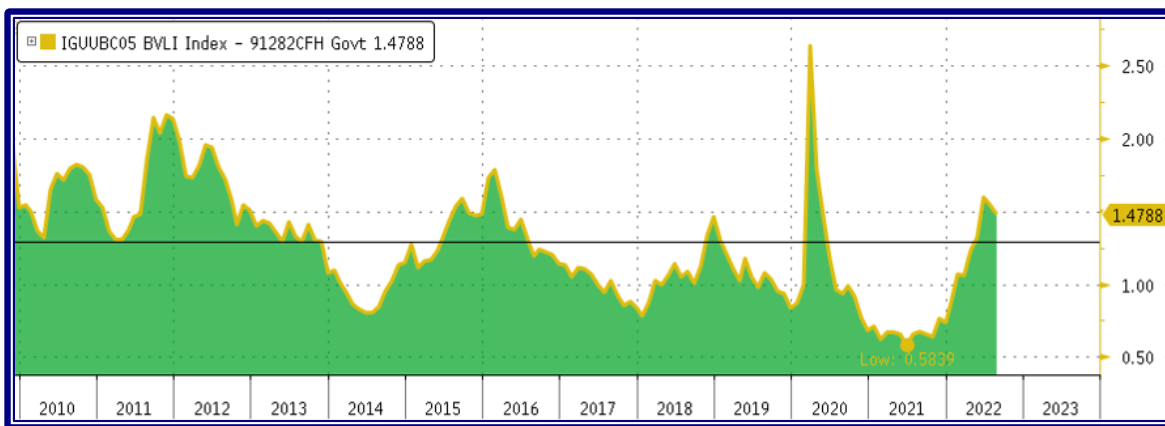
As investors search for additional yield pick-up in the intermediate space, investment grade corporate issues (rated BBB or higher) and municipals are trading at attractive spreads over Treasuries. Their curves are modestly steeper as well offering investors more reward for longer durations. The move has been most prominent in 2–5-year issues as the shorter end of the curve steepened.



Source: Raymond James Fixed Income Quarterly 2022

Corporate spreads over Treasuries in the intermediate space, as illustrated by the Bloomberg Valuation 5-year BBB corporate index, have widened substantially after bottoming in 2021. Spreads got as low as 0.58 during the pandemic and have since surpassed its 10+ year average of 1.29 underscoring their current value add.

Corporate BBB Spread over 5-Year Treasury



Source: Bloomberg and Altman Investment Management

FINAL COMMENTS:

Treasuries held up modestly better than mortgage-backed securities and intermediate corporates issues. High yield corporates performed the best during the first half by a wide margin. Now, with yields higher, investors have more options available to them without having to venture into the junk space and take on what could potentially be unintended risk.

A strategy of laddering bonds and layering reinvestment of maturities is a prudent way to participate in the uncertain environment. This allows for periodic reinvestment in the bond market at higher interest rates, gradually raising the average yield of the portfolio.

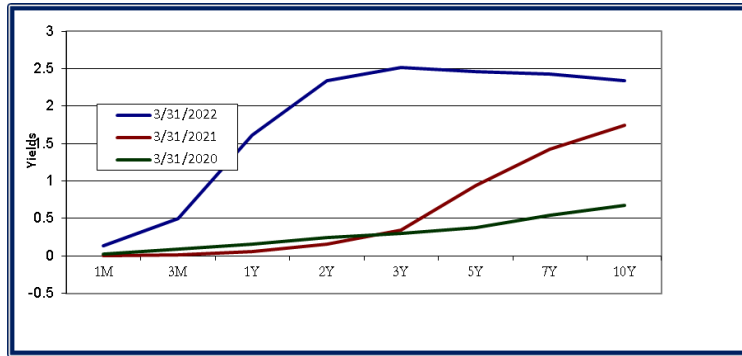
Fixed Income Sector Performance – Q2 2022

	Rating	Maturity	Duration Mod Adj	Yield	Spread	Price	Trailing 12m TR
Treasury (Intermediate)	Aaa/AAA	3.98	3.77	2.33%	N/A	\$96.61	-3.95%
Agency	Aaa/AA+	3.62	3.31	2.36%	0.03%	\$99.57	-3.59%
MBS	Aaa/AAA	7.61	6.3	3.00%	0.67%	\$97.30	-5.10%
Municipal	AA2	7.13	3.27	2.08%	-0.25%	\$107.41	-3.80%
Corporate (Intermediate)	AA2	5.73	5.12	3.01%	0.68%	\$97.88	-4.85%
High Yield	B1	6.19	4.45	5.93%	3.60%	\$97.05	-0.29%

Source: Altman Investment Management Research and Bloomberg

APPENDIX:

Treasury Yield Curve



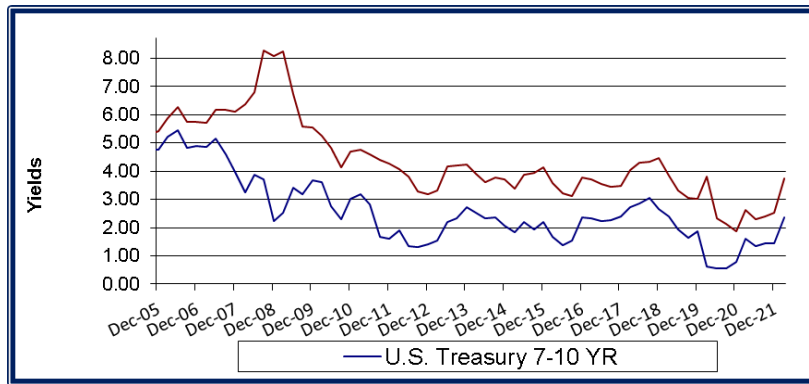
Source: Altman Investment Management Research and Bloomberg

Ten-Year Generic Treasury Yield



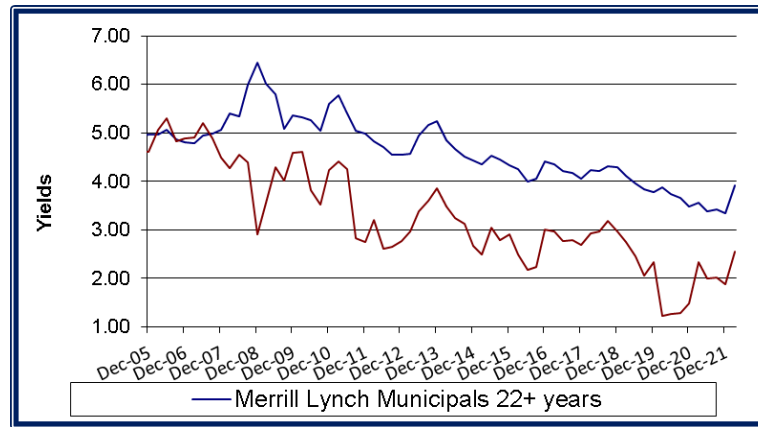
Source: Altman Investment Management Research and Bloomberg

Long Term Corporate to Treasury Spreads



Source: Altman Investment Management Research and Bloomberg

Long Term Municipal to Treasury Spreads



Source: Altman Investment Management Research and Bloomberg

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