JOHNSON ASSET MANAGEMENT

STRATEGY COMMENTARY
Johnson Core Fixed Income
AS OF 03.31.2023

A QUARTER REVIEW:

The bond market picked up where it left off last year, searching for signs that we may be nearing the end of the Fed's historic tightening cycle. Softer than expected data throughout December shifted the market's focus from additional rate hikes to possible rate cuts this year. The rally proved short-lived, however, as economic data perked back up in January and February and interest rates briefly re-tested cycle highs. The real news for the quarter, however, was the sudden failure of Silicon Valley Bank ("SIVB") and subsequent collapse of Signature Bank of New York ("SBNY"). While policy makers acted quickly and decisively to limit the direct fallout, the 2-year treasury fell 79 basis points during the month of March as investors quickly shifted expectations back to rate cuts. The news of SIVB and SBNY also brought credit risk back into focus. Investment Grade Credit spreads initially widened 39 basis points, led by sharp widening in financials. As fear of widespread bank contagion moderated, however, spreads retraced most of their March widening, finishing the quarter just 8 bps wider.

CONTRIBUTORS	DETRACTORS
DURATION	FINANCIALS ALLOCATION
MBS UNDERWEIGHT	

ATTRIBUTION

	JOHNSON	BLOOMBERG US AGGREGATE	DIFFERENCE
DURATION	2.27%	2.19%	0.08%
NON-PARALLEL	-0.18%	-0.19%	0.01%
OTHER RATES	0.07%	0.01%	0.06%
SECTOR/QUALITY	-0.11%	-0.18%	0.07%
SELECTION	-0.26%	-0.03%	-0.23%
INCOME	1.14%	1.13%	0.01%

PERFORMANCE

	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	2.92%	-5.03%	-2.84%	1.24%	1.34%	1.90%
JOHNSON (NET)	2.86%	-5.27%	-3.08%	0.99%	1.08%	1.64%
BLOOMBERG US AGGREGATE	2.96%	-4.78%	-2.77%	0.91%	0.88%	1.36%

PERFORMANCE SUMMARY:

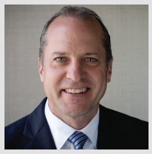
The sharp decline in interest rates led the bond market to its second straight quarter of positive absolute returns – a welcome reprieve for bond investors. The Johnson Core Bond Strategy returned 2.86% net of fees during the quarter versus the Bloomberg US Aggregate Index return of 2.96%. The Strategy remains over-weight high quality financials, which widened more than their industrial and utility peers following SIVB's collapse. The Strategy's overall emphasis on corporate bonds was an added headwind, but was mostly offset by the hedge benefit of longer duration Treasuries which benefited as interest rates fell. Finally, MBS underperformed duration matched Treasuries once again. We remain underweight MBS with an emphasis on stable cash flow bonds, both of which were additive to performance during the quarter.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

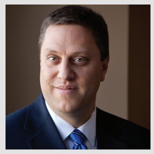
Despite the Fed “dots” remaining relatively unchanged for 2023, investors now expect significant rate cuts over the remainder of the year. In fact, the market has now priced in a Fed Funds rate for December 31st of just 4.35%, nearly 80 basis points lower than the Fed’s estimate. As interest rates fell across the curve during March, the 10-year treasury now sits at the low end of our fair value estimate. As a result, we have allowed the Strategy’s duration to shorten modestly, but remain slightly long overall. Interest rates remain highly volatile, as the 10 Year Treasury experienced its sixth straight month of 30 basis point or greater swings. This volatility in the first quarter wasn’t limited to interest rates. Credit spreads widened sharply following the news of SIVB’s failure. While index level credit spreads appeared optically cheap, much of the widening was concentrated within the financial sector. High quality industrial and utility spreads remain near cycle tights. As a result, we remain defensively positioned as the financial condition tightening resulting from high profile bank stress is likely to further pressure an already moderating US economy. While yields have fallen from recent highs, high-quality Core Fixed Income remains well positioned to serve as a reliable hedge against further economic and market volatility, while also offering investors historically attractive income.

PORTFOLIO SUMMARY	JOHNSON	BLOOMBERG US AGGREGATE
COUPON	3.18%	2.80%
YIELD TO MATURITY	4.48%	4.40%
WEIGHTED AVG. MATURITY (IN YEARS)	8.43	8.58
WEIGHTED AVG. DURATION (IN YEARS)	6.79	6.33
CONVEXITY	0.36	0.29

OUR FIXED INCOME STRATEGY TEAM:



Jason Jackman, CFA
Chief Executive Officer, Principal



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Portfolio Manager

1965
ESTABLISHED

$4.9B
INSTITUTIONAL ASSETS UNDER MANAGEMENT
(As of 03.31.23)

Our primary objective across all duration mandates is to outperform the market with comparable volatility by utilizing our proprietary and unique Quality Yield approach and the deep experience and continuity of our investment team.

For more information on our products and services, please contact a member of the our Sales & Client Service Team at **513.389.2770** or **info@johnsonasset.com**.

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