

**A QUARTER REVIEW:**

Bond investors received no relief in the second quarter as bond markets followed their worst quarter since 1980 with a second consecutive quarter of negative returns. Bond yields began the quarter anticipating that the Fed would quickly act to raise interest rates toward its estimate of the long-term neutral rate by the end of the year. Persistently high inflation and increasingly hawkish communication, however, led investors to price in additional rate hikes above and beyond the neutral rate. As a result, interest rates rose across the curve and signs of tighter financial conditions began to appear in economic data, raising investors' concerns of a potential policy-induced recession. Credit spreads reacted to growing recession fears and widened 62 basis points during the quarter, closing at their highest levels since the COVID-induced sell off in early 2020.

| CONTRIBUTORS                | DETRACTORS           |
|-----------------------------|----------------------|
| CORPORATE SELECTION         | LONG DURATION        |
| NON-PARALLEL CURVE EXPOSURE | CORPORATE OVERWEIGHT |
|                             | MBS ALLOCATION       |

| ATTRIBUTION    |         |  |            |
|----------------|---------|--|------------|
|                | JOHNSON | ICE BofA Merrill Lynch<br>US Corp & Govt, 1-3 Year Index | DIFFERENCE |
| DURATION       | -1.55%  | -1.28%   | -0.27%     |
| NON-PARALLEL   | 0.14%   | -0.02%   | 0.16%      |
| OTHER RATES    | 0.11%   | 0.18%  | -0.07%     |
| SECTOR/QUALITY | -0.65%  | -0.19%   | -0.45%     |
| SELECTION      | 0.23%   | 0.04%  | 0.19%      |
| INCOME         | 0.73%   | 0.65%  | 0.08%      |

**PERFORMANCE**

|   | QTD    | 1YR    | 3YR   | 5YR   | 7YR   | 10YR  |
|---|--------|--------|-------|-------|-------|-------|
| JOHNSON (GROSS)                                     | -0.99% | -4.44% | 0.26% | 1.19% | 1.31% | 1.36% |
| JOHNSON (NET)                                       | -1.05% | -4.68% | 0.00% | 0.94% | 1.06% | 1.11% |
| ICE BofA Merrill Lynch<br>US Corp & Govt, 1-3 Years | -0.62% | -3.62% | 0.31% | 1.09% | 1.05% | 1.04% |

**PERFORMANCE SUMMARY:**

Continued volatility in the bond market once again weighed on total returns, resulting in a second straight quarter of negative returns. The Johnson Short Duration Fixed Income strategy fell -1.05% net of fees versus the ICE BofA Merrill Lynch 1-3 Year Corporate & Govt Index which closed the quarter down -0.62%. Interest rates moved higher across the entire curve, resulting in a slight headwind to performance. Although overall portfolio duration was a headwind, our yield curve positioning partially offset our modestly long duration relative to the benchmark. Furthermore, concerns over slowing economic growth pushed credit spreads wider. Although partially offset by our security selection within corporates, our overweight to corporates was the primary detractor to performance during the quarter. Our small non-benchmark position in Agency MBS was also a detractor during the quarter as mortgage spreads widened in anticipation of Quantitative Tightening.

**MARKET OUTLOOK AND PORTFOLIO POSITIONING:**

Going forward, investors will continue to pay close attention to the economy for signs that tighter financial conditions have begun to weigh on economic activity. Stubbornly persistent inflation has led investors to price in a historically aggressive pace of Fed tightening through the end of 2022. The 10-Year Treasury finished the quarter at 3.02%, pricing in up to seven additional rate hikes this year. Interest rates are now largely within our estimate of fair value, and as a result we have reaffirmed our slightly long benchmark duration positioning. Corporate bond yields are approaching their most attractive levels since the Great Financial Crisis and offer investors an attractive long-term valuation opportunity. Should the economy continue to slow, however, corporate spreads could widen in the near term. As a result, we remain cautious on further boosting to our corporate allocation. While the economic outlook remains uncertain, we believe our emphasis on high-quality, low-beta corporates and our disciplined approach to portfolio construction are well positioned to withstand further volatility.

**PORTFOLIO SUMMARY**

|                                   | JOHNSON | ICE BofA Merrill Lynch<br>US Corp & Govt, 1-3 Year Index |
|-----------------------------------|---------|--|
| COUPON                            | 2.91%   | 1.87%  |
| YIELD TO MATURITY                 | 3.53%   | 3.22%  |
| WEIGHTED AVG. MATURITY (IN YEARS) | 2.34    | 1.96   |
| WEIGHTED AVG. DURATION (IN YEARS) | 2.12    | 1.88   |

**OUR FIXED INCOME STRATEGY TEAM:**

**Jason Jackman, CFA**  
President, Principal



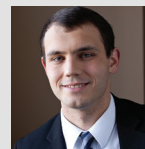
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Director & Portfolio Manager,  
Principal



**Michael Leising, CFA**  
Chief Investment Officer -Fixed Income,  
Portfolio Manager, Principal



**David Theobald, CFA**  
Senior Portfolio Manager,  
Principal



**Ryan Martin, CFA**  
Portfolio Manager

**1965**  
ESTABLISHED

**\$4.9B**  
INSTITUTIONAL  
ASSETS UNDER  
MANAGEMENT  
(As of 06.30.22)

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 our Sales & Client Service Team at 513.389.2770 or [info@johnsonasset.com](mailto:info@johnsonasset.com).



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