JOHNSON ASSET MANAGEMENT

STRATEGY COMMENTARY
Johnson Intermediate Fixed Income
AS OF 03.31.2022

A QUARTER REVIEW:

As expected, monetary policy became the central focus of bond investors to begin 2022. Entering the year investors had been expecting a gradual pace of tightening as economic growth slowed returning to more normal pre-pandemic growth. More persistent inflation led the Fed to become more hawkish, forcing investors to quickly adjust expectations. As a result, the two-year Treasury rate rose 161 basis points during the quarter, the fourth highest quarterly move since 1982. Despite the persistent inflation, long-end treasury rates remained well anchored near the Fed's estimate of the terminal rate, signaling the market and Fed agree on more sanguine medium to longer-term economic growth. Volatility was also not contained to rates, as investment grade corporate spreads widened 23 basis points during the quarter. While it is unusual, credit spreads and interest rates have moved together during prior periods of abrupt policy transitions. The good news is these periods are typically short lived and absent near-term deterioration in economic fundamentals can prove to be an attractive opportunity.

CONTRIBUTORS	DETRACTORS
CORPORATE SECURITY SELECTION	CORPORATE OVERWEIGHT
GOVERNMENT YEILD CURVE STRUCTURE	CORPORATE 5 YEAR KEY RATE DURATION

ATTRIBUTION

	JOHNSON	BLOOMBERG INTERMEDIATE G/C	DIFFERENCE
DURATION	-3.82%	-3.47%	-0.35%
NON-PARALLEL	-1.12%	-1.18%	0.07%
OTHER RATES	0.10%	0.13%	-0.03%
SECTOR/QUALITY	-0.64%	-0.31%	-0.33%
SELECTION	0.18%	-0.01%	0.19%
INCOME	0.47%	0.41%	0.07%

PERFORMANCE

	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	-4.76%	-4.03%	1.79%	2.27%	2.19%	2.49%
JOHNSON (NET)	-4.82%	-4.27%	1.53%	2.02%	1.94%	2.23%
BLOOMBERG INTERMEDIATE G/C	-4.51%	-4.10%	1.50%	1.81%	1.65%	1.85%

PERFORMANCE SUMMARY:

As a result of the unusual market volatility, most major bond indices suffered their worst quarterly declines in over 30 years, with the Johnson Core Fixed Income strategy returning -6.15% net of fees versus the Bloomberg US Aggregate Index of -5.93%. Duration was a modest headwind to performance as rates rose, but this was partially offset by our yield curve structure. Within our government bond allocation our overweight to 30-year key rate duration was additive to performance as the yield curve flattened. The emphasis on intermediate-maturity corporates was a headwind as the belly of the yield curve underperformed. Credit spreads also widened throughout the quarter, which acted as a further headwind given our overweight to spread sectors. This was mostly offset by our high-quality corporate security selection. MBS underperformed duration matched treasuries during the quarter as the Fed communicated plans to reduce the size of its balance sheet. We remain underweight MBS relative to the Aggregate Index which was a positive contributor to performance the during the quarter. Additionally, our strategy avoids on-the-run, current coupon MBS which performed the worst during the quarter.

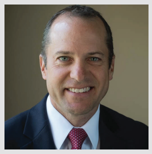
MARKET OUTLOOK AND PORTFOLIO POSITIONING:

Despite the challenging start to the year, the outlook for fixed income returns going forward has improved greatly. Persistent inflation and increasingly tough talk from the Fed have caused one of the sharpest and fastest interest rate adjustments in history. As a result, the yield on our Intermediate Fixed Income strategy is now approaching 3.00%, near its highest level since the Financial Crisis. We continue to believe the macroeconomic environment will normalize to pre-pandemic growth and inflation trends. At the same time, the market is now pricing in the equivalent of ten additional rate hikes over the next year, nearly the full rate hike cycle according to the Fed's projection. As a result, we continue to target a neutral to slightly long portfolio duration across portfolios. While growth is likely to normalize, economic fundamentals in the near term remain healthy. The widening of credit spreads during the quarter has presented an opportunity to reaffirm our overweight to high-quality, low beta corporates by selectively adding to our favorite names at attractive valuations. As markets continue to adjust to the change in monetary policy, we continue to believe that our disciplined approach remains well positioned to weather possible bouts of market volatility.

PORTFOLIO SUMMARY

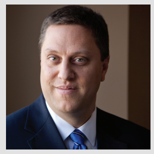
	JOHNSON	BLOOMBERG US INTERMEDIATE G/C
COUPON	2.89%	1.94%
YIELD TO MATURITY	2.93%	2.67%
WEIGHTED AVG. MATURITY (IN YEARS)	5.06	4.38
WEIGHTED AVG. DURATION (IN YEARS)	4.46	4.05
CONVEXITY	0.09	0.12

OUR FIXED INCOME STRATEGY TEAM:



Jason Jackman, CFA
President,
Principal

Brandon Zureick, CFA
Director & Portfolio Manager,
Principal



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

David Theobald, CFA
Senior Portfolio Manager,
Principal

1965
ESTABLISHED

$5.2B
INSTITUTIONAL ASSETS UNDER MANAGEMENT
(As of 03.31.22)

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 the our Sales & Client Service Team at **513.389.2770** or **info@johnsonasset.com**.

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