

**A QUARTER REVIEW:**

The second quarter was a near perfect inverse of the first quarter for the bond market. Fear of widespread bank failures pushed yields lower and corporate bond spreads wider during the first three months of the year. By late Spring, however, investors had grown increasingly confident that banking system stress was more likely to remain contained. As a result, corporate bond spreads tightened 11 basis points, led by financials. As investors' focus shifted away from banks, the Fed and its ongoing fight on inflation once again took center stage. Despite engineering a "hawkish pause" at the June Fed meeting, Chair Powell took great care to emphasize that the Fed's job was not yet done. The bond market reacted quickly, pricing out any remaining near-term rate cuts. As a result, yields rose sharply across the curve. The short end of the yield curve reacted the most, as the two-year Treasury yield approached multi-year highs. The longer end had a more muted reaction, resulting in continued flattening of the yield curve. Despite a flurry of intra-year volatility, the 10 Year Treasury finished the first half of the year virtually unchanged. Spreads tightened throughout the quarter, led by financials. The largest "GSIB" banks led the way, and are now trading close to pre-SIVB levels, while smaller regional banks still remain historically cheap. Agency MBS spreads tightened 17 basis points from their intra-quarter highs and remain an area of focus for their defensive nature and historically attractive valuation.

CONTRIBUTORS	DETRACTORS
CORPORATE BOND ALLOCATION	PORTFOLIO DURATION
GOVERNMENT YIELD CURVE STRUCTURE	FINANCIALS SECURITY SELECTION

ATTRIBUTION			
	JOHNSON	ICE BofA Merrill Lynch US Corp & Govt, 1-3 Year Index	DIFFERENCE
DURATION	-0.64%	-0.57%	-0.07%
NON-PARALLEL	-0.72%	-0.83%	0.12%
OTHER RATES	-0.12%	-0.19%	0.08%
SECTOR/QUALITY	0.28%	0.14%	0.14%
SELECTION	-0.05%	0.01%	-0.06%
INCOME	1.22%	1.12%	0.10%

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	-0.01%	0.87%	-0.97%	1.27%	1.15%	1.38%
JOHNSON (NET)	-0.07%	0.62%	-1.22%	1.02%	0.90%	1.12%
ICE BofA Merrill Lynch US Corp & Govt, 1-3 Years	-0.33%	0.56%	-0.86%	1.15%	0.90%	1.01%

**PERFORMANCE SUMMARY:**

After two consecutive quarters of positive absolute returns, the rally in high-quality bonds was interrupted. The Johnson Short Duration Income Strategy returned -0.07% net of fees, outperforming the -0.33% return of the Bloomberg US Corporate and Government 1-3 Year Index. The strategy remains longer duration than its benchmark as a way to protect against the darkening macroeconomic backdrop. While we believe this positioning will be beneficial over time, the longer duration stance was a headwind to second quarter performance as interest rates retraced their first quarter rally. Additionally, the Strategy remains overweight high-quality regional banks, which tightened less than their larger "GSIB" peers throughout the quarter. However, this was more than offset by the Strategy's overweight to corporate bonds relative to its benchmark, which was additive to relative performance due to overall spread tightening. Lastly, the longer-duration structure of the Strategy's government bond allocation was an added performance tailwind as the yield curve resumed its flattening bias.

**MARKET OUTLOOK AND PORTFOLIO POSITIONING:**

As we look toward the second half of the year, we continue to position portfolios defensively. While labor markets remain surprisingly resilient, there are signs the economic moderation continues to grow deeper and more widespread. Manufacturing activity has cooled significantly and is consistent with prior recessions. While still steady overall, consumer spending continues to gradually slow. The good news is this economic moderation has also ushered in several months of softer inflation data. While inflation remains above the Fed's desired target, much progress has been made in bringing consumer price

growth back to more tolerable levels. At the same time, interest rates are approaching their cycle highs and we continue to believe that positioning portfolios modestly long duration relative to their benchmarks will allow us to capture historically attractive yields while also building a reliable hedge against future uncertainty and volatility. Similarly, corporate bond spreads remain quite low, and are tighter than economic fundamentals would imply. As a result, we have continued to reduce exposure to select issuers that we view as overvalued in favor of government weight. Agency MBS remain an attractive alternative to high-quality corporates, and we continue to maintain exposure to the sector. As always, we remain deeply committed to delivering consistent and reliable results for our clients. As the second half of the year unfolds, we're confident that our "Quality Yield" investment approach will continue to offer historically attractive yields while also offering superior downside protection.

**OUR FIXED INCOME STRATEGY TEAM:**



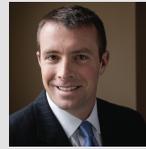
**Jason Jackman, CFA**  
Chief Executive Officer, Principal



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



**Brandon Zureick, CFA**  
Managing Director & Portfolio  
Manager, Principal



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



**Ryan Martin, CFA**  
Portfolio Manager, Principal

PORTFOLIO SUMMARY		
	JOHNSON	ICE BofA Merrill Lynch US Corp & Govt, 1-3 Year Index
COUPON	3.04%	2.43%
YIELD TO MATURITY	5.45%	5.20%
WEIGHTED AVG. MATURITY (IN YEARS)	2.30	1.95
WEIGHTED AVG. DURATION (IN YEARS)	2.08	1.84

**1965**  
ESTABLISHED

**\$4.8B**  
INSTITUTIONAL  
ASSETS UNDER  
MANAGEMENT  
(As of 06.30.23)

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](mailto:info@johnsonasset.com).



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