



## January Recap: Cold Temperatures, Hot Returns

January highlights from the fixed income markets:

- Returns were positive across virtually every segment of the fixed income market.
- While T-bill yields rose in anticipation of further Federal Reserve (Fed) rate hikes, yields fell across most of the Treasury yield curve.
- As a result, much of the yield curve remains inverted; for example, 2-year Treasuries yielded 69 basis points (bps) more than 10-year Treasuries at the end of January.
- Corporate bond spreads tightened across every sector in both the investment grade (IG) and high yield (HY) space. In general, financial sector spreads performed well, as did long-duration assets.
- The high yield default rate crept higher. At under 2%, the default rate remains low relative to historical averages.

### MARKET SUMMARY

Returns were positive across most fixed income categories in the first month of 2023.

#### YIELDS & RETURNS (%)<sup>1</sup>

	Duration (years)	Yield	January Return	YTD Return
Treasuries	6.37	3.86	2.51	2.51
Investment Grade Corporates	7.53	4.96	4.01	4.01
High Yield Corporates	4.36	8.14	3.81	3.81
Municipal Bonds	5.69	3.10	2.87	2.87

### U.S. TREASURY MARKET

Treasury yields fell in January across most of the curve. Rates on short T-bills rose amid broad expectations of further short-term rate hikes from the Fed.

#### TREASURY YIELDS (%)<sup>1</sup>

	January Change	Year-to-Date Change	1/31/2023	12/31/2022	11/30/2022	10/31/2022
90-Day T-Bills	0.28	0.28	4.66	4.38	4.36	4.13
2-year Treasury	-0.22	-0.22	4.18	4.40	4.33	4.48
5-year Treasury	-0.36	-0.36	3.60	3.96	3.79	4.24
10-year Treasury	-0.34	-0.34	3.49	3.83	3.65	4.05
30-year Treasury	-0.32	-0.32	3.62	3.94	3.77	4.17

This update provides an overview of certain broad-based Fixed Income benchmarks and does not include performance of the Segall Bryant & Hamill Fixed Income styles. Past performance cannot guarantee future results. All investments involve risk, including the possible loss of capital. SBH is a wholly owned subsidiary of CI Financial, an independent Canadian investment firm.

Treasury returns were positive across the entire curve.

#### TREASURY RETURNS (%)<sup>1</sup>

	Duration (years)	January Return	YTD Return
90-Day T-Bills	0.25	0.34	0.34
2-year Treasury	1.94	0.65	0.65
5-year Treasury	4.63	1.87	1.87
10-year Treasury	8.13	3.11	3.11
30-year Treasury	17.94	6.10	6.10
U.S. Treasury TIPS	7.00	1.83	1.83

## BROAD INVESTMENT GRADE

The U.S. Aggregate Index jumped out to a strong start to 2023 as all sub-sectors posted positive returns. Long-duration assets were generally the top performers.

#### INVESTMENT GRADE INDEX & SECTOR RETURNS (%)<sup>1</sup>

	Duration (years)	Yield	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
U.S. Aggregate	6.52	4.30	3.08	0.57	3.08	0.57
Treasuries	6.37	3.86	2.51		2.51	
Agencies	3.52	4.33	1.51	0.14	1.51	0.14
Mortgage-Backed Securities	6.21	4.28	3.29	0.93	3.29	0.93
Asset-Backed Securities	2.95	4.80	1.42	0.29	1.42	0.29
Intermediate Corporates	4.28	4.88	2.52	0.82	2.52	0.82
Long Corporates	13.64	5.12	6.90	1.95	6.90	1.95

Spreads tightened across corporate bonds and mortgage-backed securities (MBS).

#### INVESTMENT GRADE SPREADS (basis points)<sup>1</sup>

	January Change	Year-to-Date Change	1/31/2023	12/31/2022	11/30/2022	10/31/2022
Intermediate Corporates	-13	-13	103	116	119	145
Long Corporates	-13	-13	145	158	160	185
MBS Current Coupon Spread	-21	-21	135	156	147	183

Returns were strong on corporate bonds both in absolute terms and relative to Treasuries. BBBs were the top-performing ratings segment in IG.

#### INVESTMENT GRADE CORPORATE CREDIT QUALITY RETURNS (%)<sup>1</sup>

	Duration (years)	Yield	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
AAA	11.36	4.26	4.73	0.68	4.73	0.68
AA	8.89	4.44	3.81	0.52	3.81	0.52
A	7.27	4.78	3.80	1.09	3.80	1.09
BBB	7.46	5.22	4.20	1.41	4.20	1.41

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Every investment grade corporate bond sector realized tighter spreads, led by the Financials, Energy, and Communications sub-categories.

#### INVESTMENT GRADE CORPORATE BOND SPREADS BY SECTOR (basis points)<sup>1</sup>

	January Change	YTD Change	1/31/2023	12/31/2022	11/30/2022	10/31/2022
Consumer NonCyclical	-9	-9	105	114	114	135
Technology	-8	-8	103	111	111	133
Energy	-15	-15	129	144	142	164
Consumer Cyclical	-7	-7	97	104	105	131
Transportation	-10	-10	115	125	128	148
Basic Industry	-14	-14	139	153	165	187
Communications	-15	-15	145	160	159	184
Capital Goods	-8	-8	102	110	112	135
Utilities	-9	-9	120	129	136	155
Financials	-18	-18	122	140	145	177

#### HIGH YIELD

High yield (HY) corporates gained in absolute and excess (relative to Treasuries) terms. Spreads on CCC bonds tightened by over 100 basis points in a risk-on rebound from a weak 2022 for that rating category.

#### HIGH YIELD SECTOR RETURNS (%)<sup>1</sup>

	Duration (years)	Yield	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
High Yield Corporates	4.36	8.14	3.81	2.18	3.81	2.18
BB	4.78	6.60	3.29	1.52	3.29	1.52
B	4.01	8.32	3.82	2.33	3.82	2.33
CCC	3.81	12.79	6.06	4.63	6.06	4.63

#### HIGH YIELD OPTION-ADJUSTED SPREADS (OAS) (basis points)<sup>1</sup>

	January Change	YTD Change	1/31/2023	12/31/2022	11/30/2022	10/31/2022
High Yield OAS	-49	-49	420	469	448	464
BB OAS	-28	-28	267	295	289	291
B OAS	-55	-55	434	489	465	482
CCC OAS	-115	-115	893	1008	990	1082

Spreads tightened for the month on all HY corporate sectors, led by Transportation.

#### HIGH YIELD CORPORATE BOND SPREADS (OAS) BY SECTOR (basis points)<sup>1</sup>

	January Change	YTD Change	1/31/2023	12/31/2022	11/30/2022	10/31/2022
Consumer NonCyclical	-35	-35	483	518	516	519
Technology	-63	-63	435	498	463	438
Energy	-34	-34	325	359	334	317
Consumer Cyclical	-70	-70	407	477	459	493
Transportation	-82	-82	340	422	386	395
Basic Industry	-30	-30	396	426	441	462
Communications	-35	-35	535	570	515	575
Capital Goods	-47	-47	346	393	389	408
Utilities	-6	-6	264	270	255	246
Financials	-68	-68	443	511	490	487

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The number of HY issuers to have defaulted in the past 12 months rose by 3, bringing the default rate to its highest level since October 2021. This rate remains low relative to historical averages.

## MUNICIPALS & OTHER

Muni bonds enjoyed a positive month, led by the long-duration segment.

Emerging markets, convertibles and preferred stocks also rallied in January.

### HIGH YIELD DEFAULT RATES<sup>2</sup>

	January Change	YTD Change	1/31/23	12/31/22	11/30/22	10/31/22
Number of Issuers in Default	3	3	16	13	13	11
Issuer Default Rate	0.3%	0.3%	1.9%	1.6%	1.5%	1.3%
Number of Issuers in Default (ex commodities)	3	3	15	12	12	10
Issuer Default Rate (ex commodities)	0.4%	0.4%	2.1%	1.7%	1.6%	1.4%

### MAJOR MUNICIPAL BOND INDEX RETURNS (%)<sup>1</sup>

	YTW	Duration (years)	January Return	YTD Return
Short Duration (1-5 Years)	2.50	2.69	1.47	1.47
Intermediate (1-15 Years)	2.71	4.22	2.25	2.25
Long Duration (22+ Years)	4.05	10.04	4.71	4.71

### MUNICIPAL YIELDS BY RATING CATEGORY AND MATURITY (%)<sup>1</sup>

	AAA		AA		A		BBB	
	1/31	12/31	1/31	12/31	1/31	12/31	1/31	12/31
1 Year	2.32	2.80	2.42	2.89	2.59	3.17	3.44	4.07
5 Year	2.10	2.53	2.25	2.70	2.49	3.07	3.23	3.81
10 Year	2.22	2.62	2.45	2.91	2.74	3.26	3.35	3.89
30 Year	3.23	3.57	3.76	4.13	4.15	4.74	4.42	4.86

### AA MUNICIPALS – HYPOTHETICAL AFTER-TAX YIELDS BY EFFECTIVE TAX RATE (%)<sup>3</sup>

	35%	30%	25%	20%
1 Year	3.72	3.46	3.23	3.03
5 Year	3.46	3.21	3.00	2.81
10 Year	3.78	3.51	3.27	3.07
30 Year	5.78	5.37	5.01	4.70

### OTHER SECTOR RETURNS (%)<sup>1,4</sup>

	Duration (years)	Yield	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Emerging Markets	5.34	10.27	4.22	2.12	4.22	2.12
Global Investment Grade Treasuries (Unhedged)	7.61	2.86	3.08	0.08	3.08	0.08
S&P/LSTA Leveraged Loan Index	–	8.91	3.03	–	3.03	–
S&P Preferred Stock Index	–	6.96	10.90	–	10.90	–
U.S. Convertibles	1.94	0.76	5.53	–	5.53	–

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<sup>1</sup>Source: Bloomberg.

<sup>2</sup>Source: Bank of America Merrill Lynch.

<sup>3</sup>Hypothetical yields are calculated as the AA municipal yield divided by (1-tax rate). Actual tax-adjusted yields will depend on individual tax circumstances.

<sup>4</sup>Source: Standard & Poor's.