



## After a Fast Start to '23, February Hits the Brakes

February's highlights from the fixed income markets:

- February's losses in fixed income were essentially a reversal of the gains realized in January.
- Several economic reports, including payroll data, surprised to the upside, and the latest inflation reading was higher than the market had anticipated. Against this backdrop, the market's expectation for how high the Federal Reserve (Fed) will raise short-term rates jumped by 50 basis points.
- In response, Treasury yields rose across the entire curve. Outside of short T-bills, Treasury returns were negative.
- Every sub-component of the Bloomberg U.S. Aggregate Index (the Agg) posted losses for the month. Long corporates were the weakest category, losing nearly 6%.
- Spreads widened across every investment grade (IG) sector. In contrast, spreads tightened in all but two high yield (HY) sectors (Technology and Energy).

### MARKET SUMMARY

After a strong January in the fixed income markets, February was the opposite, leaving most sub-categories slightly positive year-to-date. High yield gave back some ground in the month but remains the strongest broad category so far this year.

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

	Duration (years)	Yield	February Return	YTD Return
Treasuries	6.30	4.38	-2.34	0.11
Investment Grade Corporates	7.32	5.51	-3.18	0.70
High Yield Corporates	4.30	8.63	-1.29	2.47
Municipal Bonds	6.22	3.62	-2.26	0.55

### U.S. TREASURY MARKET

Treasury yields moved higher across the curve in February, most notably on the short end.

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

	February Change	Year-to-Date Change	2/28/2023	1/31/2023	12/31/2022	11/30/2022
90-Day T-Bills	0.16	0.44	4.82	4.66	4.38	4.36
2-year Treasury	0.61	0.39	4.79	4.18	4.40	4.33
5-year Treasury	0.56	0.20	4.16	3.60	3.96	3.79
10-year Treasury	0.41	0.07	3.90	3.49	3.83	3.65
30-year Treasury	0.27	-0.05	3.89	3.62	3.94	3.77

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.

Returns were positive on T-bills but negative across the rest of the Treasury curve. Long Treasuries gave back much of their January returns but remain positive year-to-date.

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

	Duration (years)	February Return	YTD Return
90-Day T-Bills	0.25	0.34	0.34
2-year Treasury	1.93	-0.87	-0.22
5-year Treasury	4.58	-2.34	-0.51
10-year Treasury	8.45	-3.11	-0.11
30-year Treasury	18.18	-4.45	1.38
U.S. Treasury TIPS	7.01	-1.37	0.44

## BROAD INVESTMENT GRADE

Every sub-component of the Agg was negative in February, including Treasuries, corporates, and mortgage-backed securities (MBS). Relative to Treasuries, only agency-backed MBS and asset-backed securities outperformed.

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

	Duration (years)	Yield	February Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
U.S. Aggregate	6.46	4.81	-2.59	-0.19	0.41	0.36
Treasuries	6.30	4.38	-2.34		0.11	
Agencies	3.43	4.89	-1.32	0.02	0.16	0.16
Mortgage-Backed Securities	6.30	4.76	-2.64	-0.29	0.57	0.60
Asset-Backed Securities	2.90	5.29	-0.85	0.26	0.55	0.54
Intermediate Corporates	4.25	5.47	-1.98	-0.12	0.49	0.68
Long Corporates	13.31	5.59	-5.45	-1.33	1.08	0.44

IG spreads moved wider in the month, as did MBS spreads.

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

	February Change	Year-to-Date Change	2/28/2023	1/31/2023	12/31/2022	11/30/2022
Intermediate Corporates	4	-9	107	103	116	119
Long Corporates	13	0	158	145	158	160
MBS Current Coupon Spread	27	6	162	135	156	147

All IG ratings categories were down at least -3% in absolute terms while underperforming duration-matched Treasuries.

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

	Duration (years)	Yield	February Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
AAA	11.36	4.71	-3.93	-0.49	0.61	0.15
AA	8.86	4.94	-3.24	-0.34	0.44	0.15
A	7.07	5.33	-3.07	-0.51	0.62	0.53
BBB	7.27	5.77	-3.25	-0.60	0.81	0.75

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Spreads moved wider across every IG sector. Most sector spreads remain slightly inside where they began 2023.

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

	February Change	YTD Change	2/28/2023	1/31/2023	12/31/2022	11/30/2022
Consumer Non-Cyclical	8	-1	113	105	114	114
Technology	10	2	113	103	111	111
Energy	10	-5	139	129	144	142
Consumer Cyclical	4	-3	101	97	104	105
Transportation	6	-4	121	115	125	128
Basic Industry	6	-8	145	139	153	165
Communications	10	-5	155	145	160	159
Capital Goods	7	-1	109	102	110	112
Utilities	10	1	130	120	129	136
Financials	4	-14	126	122	140	145

## HIGH YIELD

HY absolute returns were negative in February, although they held in better than the returns on most other fixed income categories. CCCs were one of the few sub-sectors across fixed income to eke out a gain in the month.

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

	Duration (years)	Yield	February Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
High Yield Corporates	4.30	8.63	-1.29	0.39	2.47	2.55
BB	4.69	7.13	-1.82	0.01	1.41	1.51
B	4.00	8.79	-1.07	0.47	2.72	2.78
CCC	3.75	13.32	0.33	1.80	6.41	6.47

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

	February Change	YTD Change	2/28/2023	1/31/2023	12/31/2022	11/30/2022
High Yield OAS	-8	-57	412	420	469	448
BB OAS	0	-28	267	267	295	289
B OAS	-13	-68	421	434	489	465
CCC OAS	-2	-117	891	893	1008	990

Spreads on most HY sectors moved tighter in February. Only Technology and Energy spreads widened.

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

	February Change	YTD Change	2/28/2023	1/31/2023	12/31/2022	11/30/2022
Consumer Non-Cyclical	-17	-52	465	483	518	516
Technology	11	-52	446	435	498	463
Energy	4	-30	330	325	359	334
Consumer Cyclical	-14	-84	393	407	477	459
Transportation	-17	-99	323	340	422	386
Basic Industry	-16	-45	381	396	426	441
Communications	-3	-38	532	535	570	515
Capital Goods	-10	-57	336	346	393	389
Utilities	-4	-10	260	264	270	255
Financials	-8	-76	435	443	511	490

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The HY default rate moved slightly higher in February. This rate remains low from a historical perspective.

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

	February Change	YTD Change	2/28/23	1/31/23	12/31/22	11/30/22
Number of Issuers in Default	1	4	17	16	13	13
Issuer Default Rate	0.1%	0.4%	2.0%	1.9%	1.6%	1.5%
Number of Issuers in Default (ex commodities)	1	4	16	15	12	12
Issuer Default Rate (ex commodities)	0.1%	0.5%	2.2%	2.1%	1.7%	1.6%

## MUNICIPALS & OTHER

Municipal bonds posted losses in February as yields moved higher across all maturities and ratings categories.

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

	YTW	Duration (years)	February Return	YTD Return
Short Duration (1-5 Years)	3.21	2.68	-1.52	-0.07
Intermediate (1-15 Years)	3.30	4.38	-1.88	0.32
Long Duration (22+ Years)	4.42	11.29	-3.33	1.23

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

	AAA		AA		A		BBB	
	2/28	1/31	2/28	1/31	2/28	1/31	2/28	1/31
1 Year	3.15	2.32	3.36	2.42	3.54	2.59	4.08	3.44
5 Year	2.62	2.10	2.86	2.25	3.16	2.49	3.61	3.23
10 Year	2.62	2.22	2.84	2.45	3.28	2.74	3.59	3.35
30 Year	3.60	3.23	4.03	3.76	4.61	4.15	4.58	4.42

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

	35%	30%	25%	20%
1 Year	5.18	4.81	4.49	4.21
5 Year	4.40	4.09	3.82	3.58
10 Year	4.42	4.10	3.83	3.59
30 Year	6.21	5.76	5.38	5.04

Leveraged loans had a strong month in comparison to most fixed income categories.

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

	Duration (years)	Yield	February Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Emerging Markets	5.21	11.02	-2.58	-0.36	1.54	1.69
Global Investment Grade Treasuries (Unhedged)	7.53	3.16	-3.56	0.04	-0.59	0.12
S&P/LSTA Leveraged Loan Index	–	9.29	0.12	–	3.15	–
S&P Preferred Stock Index	–	6.27	-2.44	–	8.81	–
U.S. Convertibles	1.96	0.75	-1.42	–	4.71	–

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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.