



## Fed Pauses, Volatility Does Not

Second quarter returns were negative across most of the fixed income landscape. Every subsector of the Bloomberg U.S. Aggregate Bond Index (the Agg) posted negative absolute returns for the quarter while outperforming similar-duration Treasuries, which did even more poorly while exhibiting continued volatility.

Early in the quarter, the market was still digesting the impact of regional bank failures and weighing the potential for additional rate hikes from the Federal Reserve (Fed). The economic news was somewhat mixed as inflation measures continued to show progress, but employment numbers remained strong. The Fed's response was measured; a quarter-point rate hike at its May meeting and a pause in June—breaking a streak of 10 straight meetings with a decision to raise rates. Yields on Treasuries moved higher across the entire curve, and the 2s/10s curve inversion (the excess of the yield on 2-year Treasuries versus 10-year Treasuries) finished the quarter at its most extreme level since 1981.

Corporate bond spreads were mixed over the first two months of the quarter. June was marked by a relatively strong first quarter earnings season and continued economic resilience, which led to spreads finishing the quarter generally tighter across both investment grade (IG) and high yield (HY). In IG and HY, the most pronounced spread move (tighter) came from Financials. HY corporates were among the strongest-performing areas of fixed income for the quarter, led by the lowest-rated CCC category, as spreads tightened by double digits for all HY ratings categories. Concurrently, the high yield default rate increased by over a full percentage point as higher rates continue to take a toll on lower-quality issuers.

Read on for more details on the fixed income markets in the second quarter, and tune in here for continued analysis over the back half of 2023.

### MARKET SUMMARY

Returns were mixed in the second quarter. High yield corporates had the strongest absolute returns, while Treasuries were the weakest.

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

	Duration (years)	Yield	Q2 Return	YTD Return
Treasuries	6.35	4.37	-1.38	1.59
Investment Grade Corporates	7.41	5.48	-0.29	3.21
High Yield Corporates	4.08	8.50	1.75	5.38
Municipal Bonds	5.99	3.52	-0.10	2.67

### U.S. TREASURY MARKET

Treasury yields rose across the entire curve, with more pronounced moves on the shorter end of the curve. The excess of the 2-year Treasury yield over the 10-year Treasury yield ended the quarter at 1.06% – the highest such inversion since 1981.

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

	Q2 Change	Year-to-Date Change	6/30/2023	5/31/2023	4/30/2023	3/31/2023
90-Day T-Bills	0.56	0.92	5.30	5.40	5.15	4.74
2-year Treasury	0.84	0.47	4.87	4.40	4.03	4.03
5-year Treasury	0.53	0.16	4.12	3.75	3.49	3.59
10-year Treasury	0.33	-0.02	3.81	3.63	3.43	3.48
30-year Treasury	0.18	-0.09	3.84	3.84	3.67	3.66

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 negative for Treasuries on all but the shortest maturities. Long Treasuries were the worst performer.

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

	Duration (years)	Q2 Return	YTD Return
90-Day T-Bills	0.24	1.22	2.35
2-year Treasury	1.93	-0.89	0.56
5-year Treasury	4.58	-1.69	0.66
10-year Treasury	8.41	-1.91	1.78
30-year Treasury	18.15	-2.36	3.49
U.S. Treasury TIPS	6.80	-1.42	1.87

## BROAD INVESTMENT GRADE

The Agg and all its sub-sectors posted negative returns for the quarter while outperforming similar-duration Treasuries. Year-to-date returns are still positive for all sub-sectors, led by long corporates.

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

	Duration (years)	Yield	Q2 Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
U.S. Aggregate	6.53	4.81	-0.84	0.59	2.09	0.52
Treasuries	6.35	4.37	-1.38		1.59	
Agencies	3.40	4.93	-0.44	0.31	1.64	0.31
Mortgage-Backed Securities	6.38	4.78	-0.64	0.76	1.87	0.29
Asset-Backed Securities	2.82	5.52	-0.12	0.58	1.74	0.54
Intermediate Corporates	4.28	5.50	-0.16	1.10	2.33	1.25
Long Corporates	13.43	5.45	-0.54	1.70	4.88	2.13

Corporate spreads tightened in June and ended the quarter tighter than where they began. Current-coupon MBS spreads widened, although they tightened slightly in June.

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

	Q2 Change	Year-to-Date Change	6/30/2023	5/31/2023	4/30/2023	3/31/2023
Intermediate Corporates	-18	-7	109	125	124	127
Long Corporates	-10	-8	150	163	159	160
MBS Current Coupon Spread	25	28	182	184	171	157

Corporate bond returns were negative for the quarter in absolute terms but remain ahead of Treasuries. Returns are still solidly positive year-to-date, led by BBBs.

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

	Duration (years)	Yield	Q2 Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
AAA	11.29	4.57	-0.99	1.03	3.99	1.64
AA	8.77	4.82	-0.69	1.04	3.22	1.29
A	7.30	5.30	-0.40	1.17	2.90	1.30
BBB	7.22	5.76	-0.10	1.49	3.47	1.83

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Investment grade corporate spreads tightened for all sectors. The most pronounced moves tighter were in Financials, Transportation, and Technology – all of which realized most of the quarter’s spread move in June.

## HIGH YIELD

High yield corporates performed well in the quarter, as spreads tightened across all ratings categories. The strongest performing ratings category was CCC, which is up nearly 10% year to date.

Every high yield category aside from Utilities tightened for the quarter. Financials and Transportation tightened the most.

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

	Q2 Change	YTD Change	6/30/2023	5/31/2023	4/30/2023	3/31/2023
Consumer Non-Cyclical	-10	-12	102	116	113	112
Technology	-15	-14	97	112	113	112
Energy	-9	-5	138	154	144	147
Consumer Cyclical	-11	-9	95	107	105	106
Transportation	-16	-15	111	127	124	127
Basic Industry	-14	-12	140	156	155	154
Communications	-10	-17	143	159	157	153
Capital Goods	-11	-12	98	114	111	109
Utilities	-4	3	132	140	133	136
Financials	-25	-1	139	157	157	164

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

	Duration (years)	Yield	Q2 Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
High Yield Corporates	4.08	8.50	1.75	2.79	5.38	4.11
BB	4.40	7.08	0.89	2.04	4.36	3.07
B	3.85	8.66	1.90	2.88	5.44	4.19
CCC	3.62	12.88	4.18	5.06	9.35	8.09

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

	Q2 Change	YTD Change	6/30/2023	5/31/2023	4/30/2023	3/31/2023
High Yield OAS	-65	-79	390	459	452	455
BB OAS	-31	-43	252	303	286	283
B OAS	-67	-91	398	470	457	465
CCC OAS	-136	-170	838	958	933	974

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

	Q2 Change	YTD Change	6/30/2023	5/31/2023	4/30/2023	3/31/2023
Consumer Non-Cyclical	-52	-75	443	508	478	495
Technology	-47	-55	443	516	512	490
Energy	-37	-50	310	373	342	347
Consumer Cyclical	-89	-141	336	405	411	425
Transportation	-100	-156	266	359	366	366
Basic Industry	-34	-62	364	405	397	398
Communications	-27	29	599	676	675	626
Capital Goods	-78	-112	281	347	348	359
Utilities	1	-7	262	285	258	261
Financials	-101	-83	427	516	504	528

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The number of high yield defaults over the last 12 months continues to inch higher, although the HY default rate remains low from a historical perspective.

## MUNICIPALS & OTHER

Municipal bonds had a decent quarter relative to most fixed income categories. Yields on munis rose across virtually the entire spectrum of quality and duration.

Global IG Treasuries produced a loss in the quarter, but the remaining “other” sectors were positive. Convertibles and Leveraged Loans have produced the strongest returns for this group over the first half of the year.

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

	Q2 Change	YTD Change	6/30/23	5/31/23	4/30/23	3/31/23
Number of Issuers in Default	9	13	26	25	20	17
Issuer Default Rate	1.1%	1.6%	3.2%	3.1%	2.4%	2.1%
Number of Issuers in Default (ex commodities)	9	13	25	24	19	16
Issuer Default Rate (ex commodities)	1.4%	1.9%	3.6%	3.4%	2.7%	2.2%

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

	YTW	Duration (years)	Q2 Return	YTD Return
Short Duration (1-5 Years)	3.16	2.63	-0.42	1.05
Intermediate (1-15 Years)	3.23	4.30	-0.41	1.85
Long Duration (22+ Years)	4.22	10.72	0.67	4.96

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

	AAA		AA		A		BBB	
	6/30	3/31	6/30	3/31	6/30	3/31	6/30	3/31
1 Year	2.99	2.45	3.09	2.67	3.38	2.79	4.33	3.37
5 Year	2.59	2.20	2.77	2.50	3.08	2.61	3.93	3.17
10 Year	2.53	2.26	2.75	2.57	3.12	2.83	3.86	3.22
30 Year	3.50	3.31	3.89	3.77	4.16	4.32	4.83	4.30

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

	35%	30%	25%	20%
1 Year	4.75	4.41	4.12	3.86
5 Year	4.26	3.96	3.69	3.46
10 Year	4.24	3.93	3.67	3.44
30 Year	5.98	5.55	5.18	4.86

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

	Duration (years)	Yield	Q2 Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Emerging Markets	5.23	11.14	2.26	3.57	3.72	2.39
Global Investment Grade Treasuries (Unhedged)	7.63	3.16	-2.44	0.09	0.57	0.20
S&P/LSTA Leveraged Loan Index		9.56	3.34		6.37	
S&P Preferred Stock Index		6.84	0.02		2.49	
U.S. Convertibles	1.88	0.80	4.39		9.05	

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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.