

A QUARTER REVIEW:

While last year ended on a positive note for the bond market, expectations for meaningful rate cuts which fueled the late year bond market rally may have been somewhat premature. Steady economic data and slightly hotter than expected inflation numbers called into question the necessity of meaningful policy easing in the near future. As a result, bond yields rose across the curve, retracing nearly half of their Q4 2023 decline. For the first time in several months, the bond market is now predicting slightly fewer rate cuts than the Fed's dot plot, which may provide a nice valuation opportunity for investors looking to boost fixed income allocations or lengthen duration.

The combination of steady economic growth and a Fed that remains committed to less restrictive policy has been supportive for credit spreads. During the first quarter, investment grade credit spreads continued to tighten and closed the quarter at just 90 basis points – their tightest level since 2021.

CONTRIBUTORS	DETRACTORS
CORPORATE OVERWEIGHT	DURATION
MBS SECURITY SELECTION	UNDERWEIGHT LONG DURATION CORPORATE BONDS

ATTRIBUTION			
	JOHNSON	BLOOMBERG US AGGREGATE	DIFFERENCE
DURATION	-2.17%	-2.07%	-0.10%
NON-PARALLEL	0.01%	0.00%	0.01%
OTHER RATES	-0.05%	-0.09%	0.04%
SECTOR/QUALITY	0.24%	0.16%	0.08%
SELECTION	-0.04%	0.04%	-0.07%
INCOME	1.14%	1.13%	0.01%

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	-0.83%	1.71%	-2.45%	0.59%	1.39%	2.02%
JOHNSON (NET)	-0.90%	1.45%	-2.70%	0.34%	1.14%	1.76%
BLOOMBERG US AGGREGATE	-0.78%	1.70%	-2.46%	0.36%	1.06%	1.54%

PERFORMANCE SUMMARY:

The Johnson Core Fixed Income Strategy returned -0.90% net of fees during the first quarter, modestly underperforming the Bloomberg Aggregate Bond Index which declined -0.78%. The primary driver of the strategy's relative underperformance was its modestly longer duration relative to the benchmark. Partially offsetting the drag from duration was the strategy's overweight to corporate bonds, which benefitted from spread tightening. The strategy's corporate sector allocation had little impact, as excess returns amongst industrials, utilities, and financials were nearly even during the quarter. Long duration corporate bonds continued to outperform intermediate and short duration peers, which was an additional headwind to relative performance. Looking forward, however, long duration corporate bonds look historically overvalued, and the team continues to avoid them within portfolios. Lastly, security selection amongst the securitized sector was beneficial as the strategy's emphasis on stable cash flow bonds outperformed the benchmark's low-coupon bias.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

The outlook for the economy and markets remains quite mixed. Far leading indicators such as the yield curve and the Conference Board's LEI's continue to point to a high likelihood of economic recession sometime in the next year, while lagging indicators like non-farm payrolls have remained remarkably steady. While headline labor market measures have been quite impressive, trends underneath the surface are questionable. Metrics like total hours worked, JOLTS job openings, and even continuing jobless claims paint a less rosy picture of the labor market. While it's always quite difficult to predict where the economy and markets may head, historically tight valuation within the credit market further reinforces a more defensive posture, regardless of the soft-landing / hard-landing debate. We continue to emphasize pockets of relative value such as high-quality regional banks and even select short duration BBBs, while also remaining focused on building high-quality and dependable portfolios that will withstand any unforeseen volatility.

OUR FIXED INCOME STRATEGY TEAM:

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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.

PORTFOLIO SUMMARY

	JOHNSON	BLOOMBERG US AGGREGATE
COUPON	3.44%	3.21%
YIELD TO MATURITY	4.82%	4.86%
WEIGHTED AVG. MATURITY (IN YEARS)	8.48	8.50
WEIGHTED AVG. DURATION (IN YEARS)	6.72	6.21
CONVEXITY	0.30	0.27



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