

## A QUARTER REVIEW:

The third quarter was dominated by relentless upward pressure on interest rates. Economic data was mostly unimpressive, yet a far cry from the recession that many had been bracing for earlier in the year. This underlying economic momentum paved the way for a hawkish revision of the Fed's forecasts at the September FOMC meeting, which added additional upward pressure to rates to end the quarter. While the Fed's dot plot revealed agreement amongst the majority of committee members that further meaningful rate hikes would likely be unnecessary, it also erased a combined 50 basis points of planned rate cuts through 2025. To steal a phrase coined by mainstream financial news media, the Fed told investors it plans to keep interest rates "higher for longer." The result was a rapid repricing in the bond market, especially at the long end of the yield curve. In fact, the 2 Year Treasury yield rose just 15 basis points, while the 30 Year Treasury yield finished the quarter up 84 basis points. Despite consistent spread widening throughout August and September, Investment Grade Corporate spreads finished the quarter nearly unchanged. Performance, however, was uneven – particularly across the duration spectrum. Long duration corporate bond spreads tightened 16 basis points, outperforming short duration corporate spreads which widened 12 basis points. Agency MBS spreads were also volatile, underperforming investment grade corporate spreads and widened 14 basis points – closing near the widest levels since the COVID recession.

| CONTRIBUTORS                 | DETRACTORS                         |
|------------------------------|------------------------------------|
| CORPORATE SECURITY SELECTION | DURATION                           |
| MBS UNDERWEIGHT              | GOVERNMENT YIELD CURVE POSITIONING |

| ATTRIBUTION    |         |                        |            |
|----------------|---------|------------------------|------------|
|                | JOHNSON | BLOOMBERG US AGGREGATE | DIFFERENCE |
| DURATION       | -5.31%  | -4.92%                 | -0.38%     |
| NON-PARALLEL   | 0.55%   | 0.64%                  | -0.09%     |
| OTHER RATES    | -0.02%  | -0.08%                 | 0.06%      |
| SECTOR/QUALITY | 0.00%   | -0.04%                 | 0.04%      |
| SELECTION      | 0.03%   | -0.03%                 | 0.07%      |
| INCOME         | 1.22%   | 1.22%                  | 0.00%      |

| PERFORMANCE            |        |       |        |       |        |       |
|------------------------|--------|-------|--------|-------|--------|-------|
|                        | QTD    | 1YR   | 3YR    | 5YR   | 7YR    | 10YR  |
| JOHNSON (GROSS)        | -3.43% | 0.53% | -5.58% | 0.29% | 0.23%  | 1.64% |
| JOHNSON (NET)          | -3.49% | 0.28% | -5.82% | 0.04% | -0.02% | 1.39% |
| BLOOMBERG US AGGREGATE | -3.23% | 0.64% | -5.21% | 0.10% | -0.09% | 1.13% |

## PERFORMANCE SUMMARY:

The Johnson Core Fixed Income Strategy returned -3.49% net of fees versus the Bloomberg US Aggregate Index return of -3.23%. The Strategy's somewhat longer duration relative to its benchmark was the primary headwind to relative performance during the quarter as interest rates rose sharply. Furthermore, the Strategy seeks to offset its emphasis on corporate bonds by employing a longer-duration government bond allocation. This was an added headwind as the Fed's "higher for longer" message caused the yield curve to re-steepen. Somewhat offsetting the impact of interest rates, was the Strategy's high-quality corporate bond selection, which performed well as volatility in spreads resurfaced. This was partially negated by the intermediate maturity focus of the Strategy's corporate bond allocation, which failed to keep pace with long duration credit which significantly outperformed during the quarter. Finally, the Strategy's underweight in Agency MBS relative to the AGG was beneficial as Agency MBS spreads widened more than IG corporates.

**MARKET OUTLOOK AND PORTFOLIO POSITIONING:**

As we turn our attention to the final quarter of the year, it's difficult not to feel optimism around the opportunity in high quality fixed income. While the bear market in fixed income during the past few years has been unprecedented, yields are now at or near multi-decade highs. As a result, forward return expectations for high-quality bonds have improved meaningfully. Additionally, elevated yields also position Core Fixed Income to provide a more consistent and reliable "hedge" to risk assets. As the economy continues to feel the pressure of historically aggressive monetary policy, we believe that Core Fixed Income is well positioned to act as an anchor to overall portfolio allocations. As a result, we continue to position the portfolio with a defensive tilt including a modest duration overweight and modest overall corporate bond exposure.

**PORTFOLIO SUMMARY**

|                                   | JOHNSON | BLOOMBERG US AGGREGATE |
|-----------------------------------|---------|------------------------|
| COUPON                            | 3.32%   | 2.99%                  |
| YIELD TO MATURITY                 | 5.43%   | 5.40%                  |
| WEIGHTED AVG. MATURITY (IN YEARS) | 8.60    | 8.39                   |
| WEIGHTED AVG. DURATION (IN YEARS) | 6.75    | 6.15                   |
| CONVEXITY                         | 0.33    | 0.29                   |

**OUR FIXED INCOME STRATEGY TEAM:**

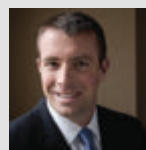
**Jason Jackman, CFA**  
Chief Executive Officer, Principal



**Michael Leisring, 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

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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