

A QUARTER REVIEW:

It's official! On September 18th, the Fed cut rates for the first time since the onset of the pandemic. Citing progress on inflation and concern over the outlook for the labor market, the Fed elected to lower rates by 50 basis points. As a result, bond yields rallied meaningfully throughout the quarter and the yield curve steepened. In fact, the two-year Treasury yield fell 111 basis points, compared to just 44 basis points on the long end. Despite the Fed's concerns about recent labor market softness, credit spreads tightened by 5 basis points during the quarter—an indication that the market remains confident in the Fed's ability to act swiftly and effectively to engineer a soft landing.

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	5.58%	12.87%	-0.98%	1.08%	2.15%	N/A
JOHNSON (NET)	5.46%	12.37%	-1.43%	0.63%	1.69%	N/A
BLOOMBERG US AGGREGATE	5.20%	11.57%	-1.39%	0.33%	1.47%	N/A

PERFORMANCE SUMMARY:

The Johnson Core Plus Fixed Income Strategy delivered a net return of 5.46% during the third quarter, outperforming the Bloomberg Aggregate Index, which gained 5.20%. This relative outperformance was driven by a variety of factors that were incrementally additive to returns during the quarter. The primary contributors to outperformance were the strategy's longer duration compared to the benchmark, as well as its key rate duration focus on the belly of the yield curve – a segment that historically benefits as the Fed eases policy. Additionally, the Core Plus strategy benefited from its income advantage over the Barclays Aggregate Index, due in large part to its allocation to select high-quality high yield offerings, as well as its overweight to corporate credit.

Additionally, the strategy's maturity structure contributed to its strong performance, as the yield curve “bull steepened” throughout the quarter. Over the past year, the team has actively repositioned the strategy's key rate duration to focus on the belly of the yield curve—a segment that historically benefits as the Federal Reserve eases policy. Finally, the strategy's credit overweight provided an added boost, with spreads tightening modestly during the period.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

We maintain a more cautious outlook on the economy than what is currently reflected in risk asset markets. While it's not immediately clear that a recession is imminent, current credit spread valuations appear disconnected from macroeconomic fundamentals. For instance, the latest ISM Manufacturing reading of 47.2, while not at recessionary lows, signals continued contraction. Historically, investment-grade spreads tend to exceed 150 basis points during periods when ISM Manufacturing consistently falls below 50. For context, there has only been one reading above 50 since October 2022.

CONTRIBUTORS	DETRACTORS
DURATION	MBS UNDERWEIGHT
MATURITY STRUCTURE	
CORPORATE SECURITY SELECTION	

ATTRIBUTION			
	JOHNSON	BLOOMBERG US AGGREGATE	DIFFERENCE
DURATION	3.76%	3.65%	0.11%
NON-PARALLEL	0.23%	0.11%	0.12%
OTHER RATES	0.05%	0.02%	0.03%
SECTOR/QUALITY	0.30%	0.28%	0.02%
SELECTION	-0.03%	-0.03%	0.00%
INCOME	1.21%	1.17%	0.04%

In light of this, we continue to take a conservative stance in portfolios. We remain on the lower end of the range in our typical allocation to credit and have shortened spread duration to limit the strategy's sensitivity to potential spread widening. While the Core Plus Strategy remains invested in certain high yield credits, our allocation to the sector remains below our long-term target given our defensive posture, and we continue to favor BBB-rated investment grade credits as a better combination of yield spread and credit quality. At the same time, we remain modestly long duration overall and have actively repositioned the strategy's key rate duration toward the belly of the yield curve. Even in a soft-landing scenario, we expect the Fed to lower rates to a less restrictive level, benefiting the short and intermediate segments of the yield curve. Looking ahead, we believe Core Plus fixed income is unlikely to deliver another year of double-digit returns unless a more severe recession unfolds. Instead, returns are likely to moderate, aligning with starting yield levels, which currently hover around 4.5%.

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	3.73%	3.38%
YIELD TO MATURITY	4.33%	4.23%
WEIGHTED AVG. MATURITY (IN YEARS)	7.08	8.27
WEIGHTED AVG. DURATION (IN YEARS)	6.59	6.20
CONVEXITY	0.19	0.26



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