

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, short duration credit spreads tightened by 2 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.

CONTRIBUTORS	DETRACTORS
DURATION	MATURITY STRUCTURE
INCOME	
CORPORATE OVERWEIGHT	

ATTRIBUTION			
	JOHNSON	ICE BofA Merrill Lynch US Corp & Govt, 1-3 Year Index	DIFFERENCE
DURATION	1.09%	1.04%	0.05%
NON-PARALLEL	0.78%	0.85%	-0.07%
OTHER RATES	-0.04%	-0.12%	0.08%
SECTOR/QUALITY	0.05%	0.03%	0.02%
SELECTION	0.00%	0.00%	0.00%
INCOME	1.19%	1.14%	0.05%

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	3.12%	7.93%	1.57%	1.85%	2.12%	1.96%
JOHNSON (NET)	3.06%	7.66%	1.31%	1.60%	1.86%	1.70%
ICE BofA Merrill Lynch US Corp & Govt, 1-3 Years	2.94%	7.19%	1.50%	1.71%	1.92%	1.65%

PERFORMANCE SUMMARY:

The Johnson Short Duration Fixed Income Strategy returned 3.06% net of fees during the second quarter, outperforming the ICE BofA 1-3 Year Corporate & Government Index, which returned 2.94%. The primary drivers of the strategy's relative outperformance were its slightly long-versus-benchmark duration, as well as its higher level of income compared to the benchmark. The strategy's overweight allocation to the corporate bond sector was also additive to performance during the quarter. Curve positioning detracted modestly from performance, as the curve steepened in advance of the Fed's first cut to its policy rate.

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.

In light of this, we continue to take a conservative stance in portfolios. We are reducing overall exposure to credit and shortening spread duration to limit the strategy's sensitivity to potential spread widening. At the same time, we have gradually increased the duration of our government bond holdings 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. Additionally, we will continue to maintain our out-of-index Agency MBS positioning, considering it an attractive high-quality corporate alternative.

OUR FIXED INCOME STRATEGY TEAM:

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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,
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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.

PORTFOLIO SUMMARY

	JOHNSON	ICE BofA Merrill Lynch US Corp & Govt, 1-3 Year Index
COUPON	3.21%	2.95%
YIELD TO MATURITY	4.25%	3.89%
WEIGHTED AVG. MATURITY (IN YEARS)	2.29	1.94
WEIGHTED AVG. DURATION (IN YEARS)	2.05	1.83



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