

A QUARTER REVIEW:

The fourth quarter was a reversal of many of the themes that drove bond yields lower throughout the first nine months of the year. While it feels like a distant memory, there was genuine nervousness about the health of the labor market. Through July, the unemployment rate edged up nearly a full 1% from its cycle lows. While far from a recessionary panic, the softness in labor market data was enough evidence for the Fed to lower rates a full 50 basis points in September, followed by two 25 basis points cuts in each of the final two months of the year. While the Fed's gaze shifted toward the labor market, the bond market had other concerns. As election odds shifted in favor of President Trump, the prospect of a pro-growth and somewhat inflationary policy slate pushed long-term yields higher. In fact, from the day of the first rate cut (9/18/2024) the Fed Funds rate is 100 basis points lower, while the 10-year Treasury rate is 87 basis points higher. Suffice to say, it's been a historically unusual reaction to Fed rate cuts. Credit markets, on the other hand, were nearly as uneventful as equities. Spreads also adopted an optimistic view of election results and tightened 9 basis points during the quarter. Sector performance was relatively homogenous, however, with industrials, utilities, and finance all performing roughly in line with one another.

ATTRIBUTION			
	JOHNSON	ICE BofA Merrill Lynch US Corp & Govt, 1-3 Year Index	DIFFERENCE
DURATION	-1.58%	-1.42%	-0.16%
NON-PARALLEL	0.31%	0.44%	-0.13%
OTHER RATES	-0.02%	-0.04%	0.03%
SECTOR/QUALITY	0.11%	0.04%	0.08%
SELECTION	-0.07%	-0.04%	-0.03%
INCOME	1.11%	1.04%	0.07%

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	-0.14%	4.57%	1.72%	1.68%	2.08%	1.93%
JOHNSON (NET)	-0.21%	4.31%	1.47%	1.43%	1.83%	1.67%
ICE BofA Merrill Lynch US Corp & Govt, 1-3 Years	0.02%	4.47%	1.71%	1.61%	1.96%	1.65%

PERFORMANCE SUMMARY:

The Johnson Short Duration Fixed Income Strategy fell -0.21% net of fees during the fourth quarter, underperforming the ICE BofAML US Corporate and Government 1-3 Year Index which closed the quarter up 0.02%. The primary driver of the strategy's relative underperformance was its duration, which was approximately 0.25 years longer than its benchmark. Yield curve structure was an additional drag on relative performance, as the strategy's exposure to 5-year key rate duration underperformed as the curve steepened. The impact of rising interest rates was somewhat offset by the strategy's overweight to corporate bonds, as the strategy maintains a modest yield advantage relative to the index and short duration credit spreads tightened modestly during the quarter.

CONTRIBUTORS	DETRACTORS
CORPORATE OVERWEIGHT	DURATION
	YIELD CURVE STRUCTURE

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

Looking forward, we continue to position portfolios defensively. Corporate bond spreads closed the year near their lowest levels in over two decades. As a result, we believe that the total return opportunity from spread tightening has greatly diminished going forward. We continue to maintain an over-weight to corporates to maximize income but have lowered the corporate spread duration of portfolios further in order to insulate portfolios from the impact of rising spreads. In addition to our corporate bond overweight, we continue to maintain a modest out of index allocation to MBS as the valuation remains attractive relative to high quality corporates and we view the sector as a way to enhance overall portfolio yield from a government quality alternative. The strategy's duration target remains roughly 20-30 basis points above its benchmark. While the economy has been more resilient than leading indicators would have implied, we believe the current level of interest rates has approached the upper end of a range of fair values, even in a scenario where the economy remains steady. While markets have reacted positively to the news of President Trump's re-election, meaningful tariffs and hawkish immigration policies may be headwinds for the economy and markets. With risk asset market valuations stretched across equities and credit, we continue to believe a more conservative approach is warranted. As always, please reach out to a member of the Johnson Team if you have any questions.

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.

PORTFOLIO SUMMARY

	JOHNSON	ICE BofA Merrill Lynch US Corp & Govt, 1-3 Year Index
COUPON	3.23%	2.98%
YIELD TO MATURITY	4.69%	4.43%
WEIGHTED AVG. MATURITY (IN YEARS)	2.22	1.85
WEIGHTED AVG. DURATION (IN YEARS)	2.02	1.75



Johnson Asset Management (JAM) is a division of Johnson Investment Counsel, Inc. ("JIC"), an independent and privately owned Midwestern based investment advisory firm registered with the Securities and Exchange Commission. Johnson Asset Management manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. It may also serve as sub-adviser for mutual funds. JIC's fees are available upon request and may be found in our Form ADV Part 2A. Performance data quoted herein represents past performance. Past performance does not guarantee or indicate future results. All data is current as of December 31, 2024 unless otherwise noted. Returns and net asset value will fluctuate. To determine if this strategy is appropriate for you, carefully consider the investment objectives, risk factors, and expenses before investing. Individual account management and construction will vary depending on each client's investment needs and objectives. Investments employing JIC's strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by any Bank or any Bank affiliate, and MAY lose value, including possible loss of principal. Johnson Asset Management claims compliance with the Global Investment Performance Standards. The Short Duration Fixed Income composite includes all fee paying, fully discretionary, actively managed institutional fixed income portfolios with a minimum value of \$500,000 and an investment objective of short duration, investment grade taxable fixed income. The benchmark for this composite is the ICE BofA Merrill Lynch 1-3 Year G/C Index. The ICE BofA Merrill Lynch 1-3 Year Corporate/Government Bond Index includes publicly issued U.S. Treasury debt, U.S. government agency debt, taxable debt issued by U.S. states and territories and their political subdivisions, debt issued by U.S. and non-U.S. corporations, non-U.S. government debt and supranational debt. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. JAM's policies for valuing portfolios, calculating performance and preparing compliant presentations, as well as a complete list of composite descriptions are available upon request. Please contact our office at 513.389.2770 or 3777 West Fork Road, Cincinnati, OH 45247. All returns reflect the reinvestment of investment income (dividends and/or interest) and capital gains. Valuations and returns are stated in U.S. dollars. Trade date accounting is used. Portfolio returns are calculated using time weighed return methodology on a monthly basis. Net returns shown reflect gross performance less the highest fee schedule for this strategy. Actual client returns would also be reduced by brokerage commissions, custodial fees, and other client paid expenses detailed in JIC's Form ADV Part 2A.