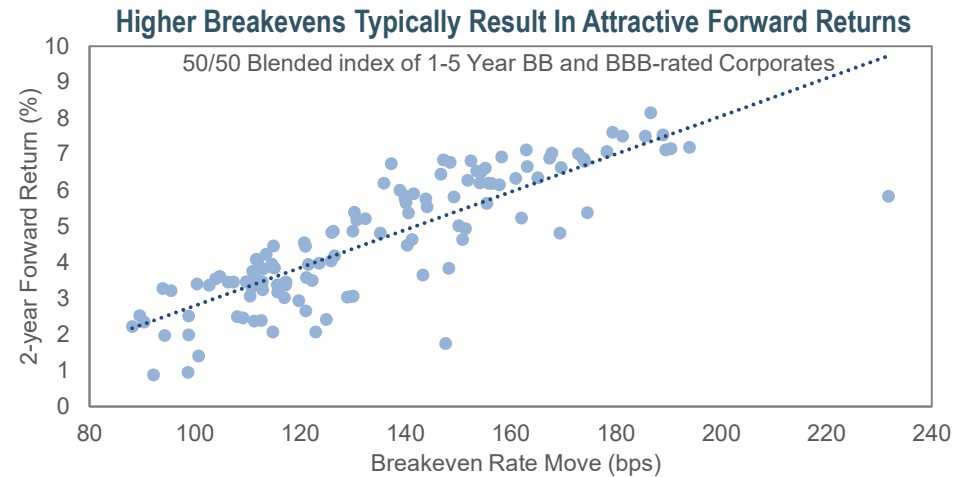
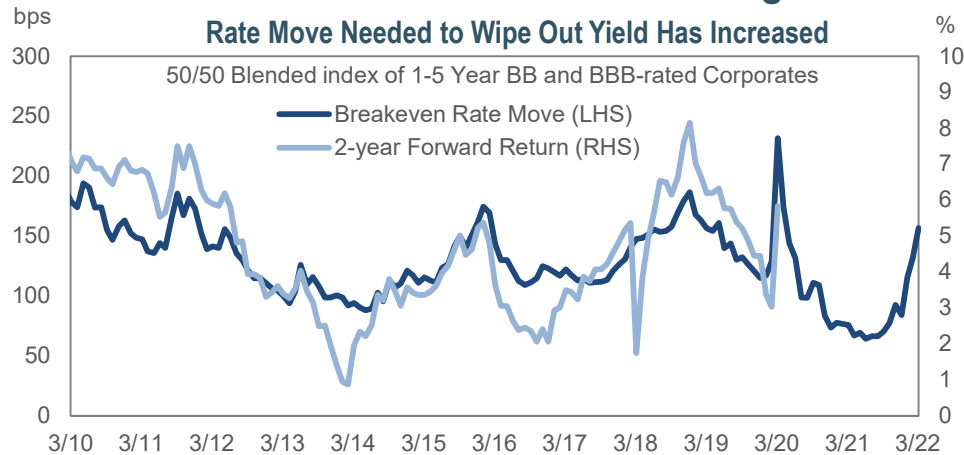


Looking For Positive Amid the Negative



- Long-term fixed income investors benefit from higher reinvestment rates as interest rates rise, despite the short-term negative price impact. Many investors have experienced negative mark-to-market returns year-to-date, as yields across the curve have increased by over 30% and investment-grade and high-yield corporate spreads have widened by 24bps and 43bps, respectively. However, wary investors might find some solace in current breakevens across much of the fixed income universe.
- A breakeven analysis is a helpful way for investors to determine relative value and downside risk by separating the two main components of total return in fixed income – income return and price return. The current yield of an index is a reasonable estimate of the income return over the next year. The duration of the index and a hypothetical move in rates and/or spreads are used to calculate the price return. The breakeven point is when the income return (yield) is offset by the price return (duration*yield move). A higher breakeven means a larger change in yields is needed to result in a negative total return.
- Breakevens currently look attractive in many sectors. For example, a 50/50 blended index of BB and BBB-rated corporates with maturities between 1 and 5 years results in a current breakeven of over 150bps. The yield of the index would need to increase by that amount over the next year to offset the current yield-to-worst of 4.0%. The relatively low probability of such a move is highlighted by looking at how markets fared in the two years following high breakevens.
- At IR+M, we believe in remaining duration-neutral to a respective index and allowing our security selection skills to drive relative performance. While we do not predict the future direction or magnitude of interest rate movements, we believe current breakevens make a solid argument for maintaining or adding to fixed income allocations in the face of recent underperformance.

Source: Bloomberg as of 3/29/22. Breakeven is calculated by dividing the yield of the portfolio by the current duration. 2-year forward return is annualized. The 1-5 year BB and BBB-rated corporate markets are based on the Bloomberg US High Yield Corp BB 1-5 Year Index and the Bloomberg US Corporate Baa 1-5 Year Index. The dotted line in the right-hand chart is a best fit trend line. The views contained in this report are those of Income Research & Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. Investing in securities involves risk of loss that clients should be prepared to bear. More specifically, investing in the bond market is subject to certain risks including but not limited to market, interest rate, credit, call or prepayment, extension, issuer, and inflation risk. It should not be assumed that the yields or any other data presented exist today or will in the future. Past performance is not a guarantee of future results and current and future holdings are subject to risk. Forward looking analyses are based on assumptions and may change. It should not be assumed that recommendations made will be profitable in the future. Actual results may vary. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management. "Bloomberg®" and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to any IR+M product.