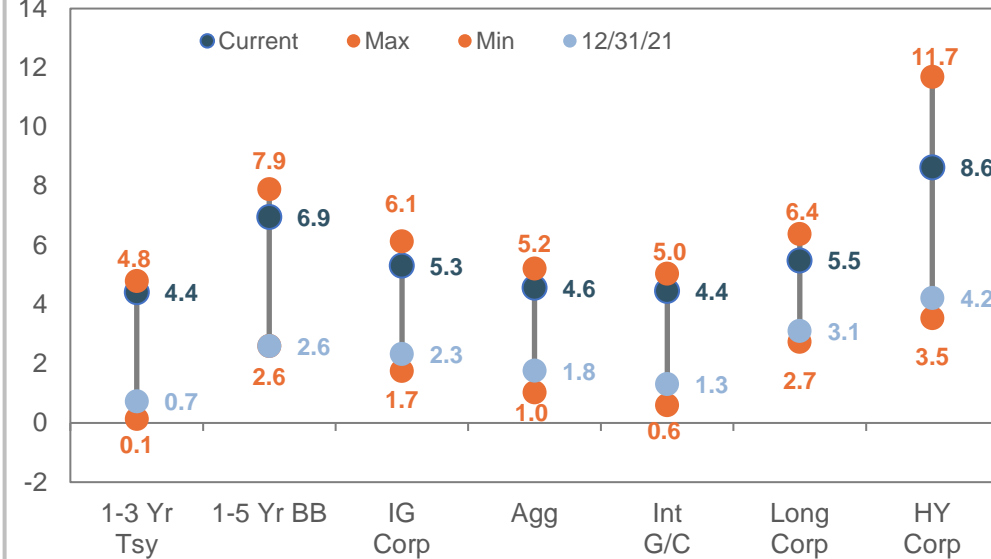


## Carrying Us Into 2023

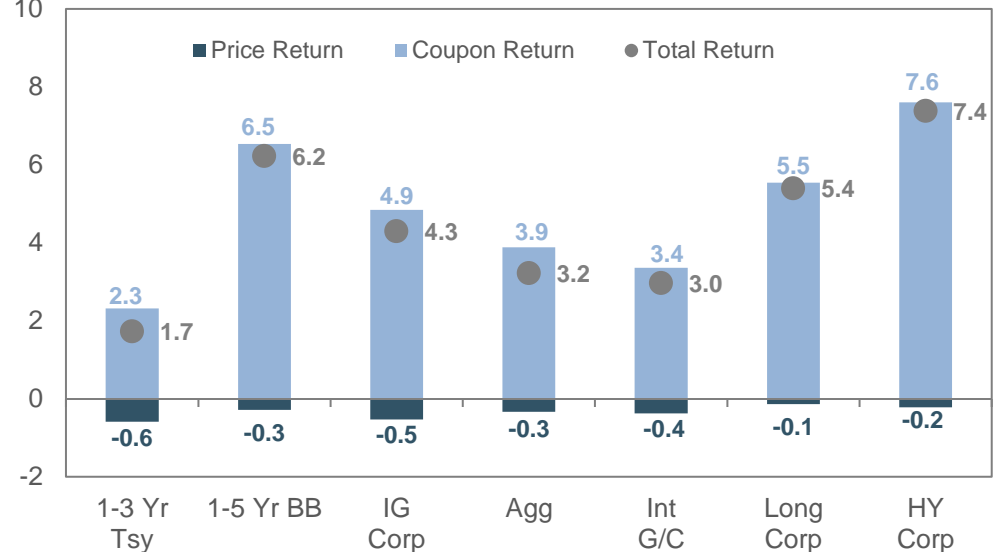
Yield (%)

Many Yields Near Highest Level Since December 2012...



Annualized Return (%)

... And Yield is the Primary Driver of Longer-Term Returns



- **Yields across fixed income markets are up significantly.** Rates fell to some of the lowest levels on record in 2020 as accommodative monetary and fiscal policy pushed yields lower to help support economic growth. They have since retraced to close at the highest yields in the last decade, as inflation has proven to be more persistent than initially thought. The Federal Reserve (Fed) has hiked the federal funds target range by 4.25% in response.
- **Total returns have suffered as a result.** The Bloomberg Aggregate Index is down almost 13% year-to-date – on track to be the worst performing calendar year on record – with the index yield increasing to 4.6% from 1.8%. The negative price return from higher rates has been the main cause of the negative returns in fixed income this year.
- **Higher yields should help total returns in 2023.** Fixed income investors benefit from higher reinvestment rates, especially those investors with longer time horizons. Coupon income typically more than offsets negative price return, and with rates now much higher, this *carry* should help protect investors from further downside risks.

Source: Bloomberg. Indices shown in the above charts are Bloomberg indices. Yield range is from 12/31/2012 to 11/30/22. Returns shown in the right chart are annualized from 11/30/02 to 11/30/22. Yields are represented as of the above date(s) and are subject to change. 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. 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.