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INCOME RESEARCH + MANAGEMENT

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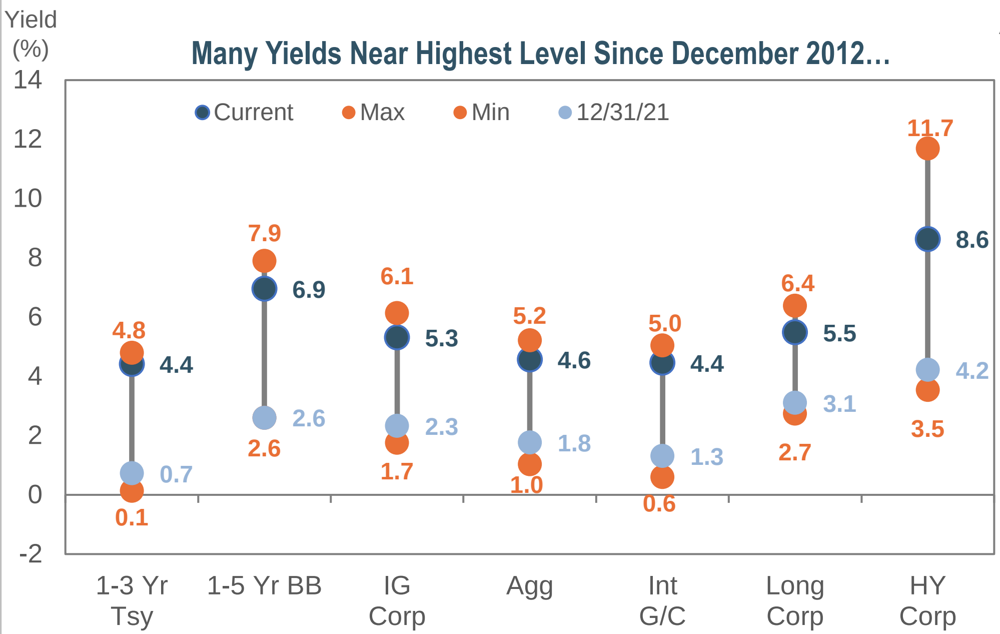
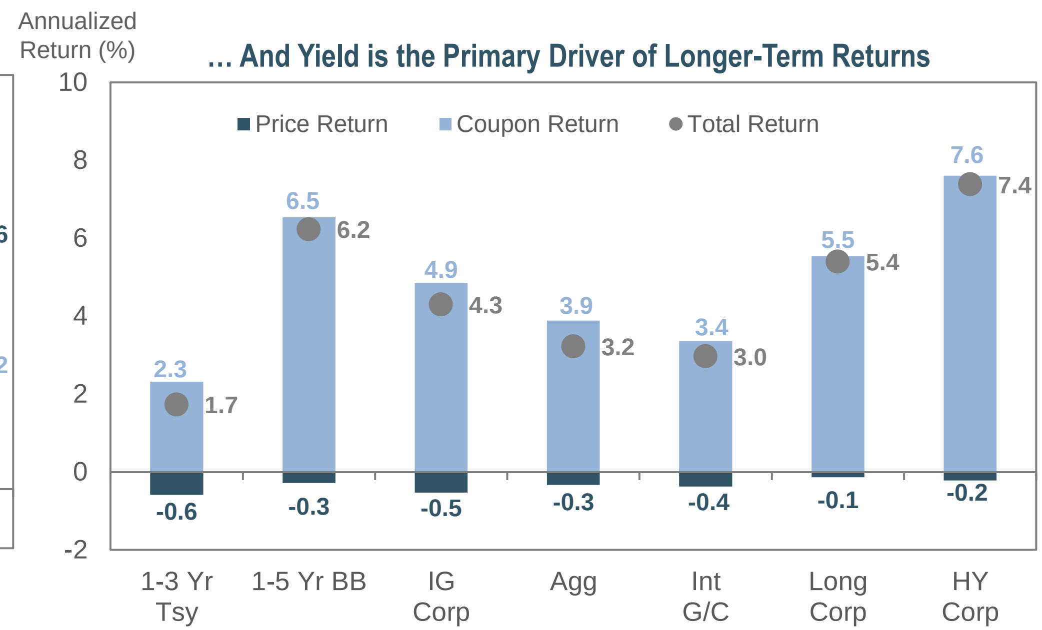
Carrying Us Into 2023

Many Yields Near Highest Level Since December 2012…



… 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.

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