
The World of Fixed Income from a Consultant Perspective

Florida Public Pension Trustees Assoc.

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MARINER

Changing Landscape in Fixed Income



Changes in Return Expectations

Asset Class		2021			2024		
		Return	Risk	Return/ Risk	Return	Risk	Return/ Risk
P u b l i c s	Core Fixed Income	2.16	3.43	0.63	5.19	4.28	1.21
	Investment Grade Corporate Bonds	2.69	6.22	0.43	6.04	7.14	0.85
	US Large Cap Equity	5.13	14.80	0.35	8.19	16.19	0.51
	US Small Cap Equity	6.33	19.44	0.33	9.07	20.44	0.44
	International Developed Equity	7.80	16.92	0.46	10.58	17.64	0.60
A l t s	Private Equity	9.36	18.67	0.50	11.46	20.06	0.57
	Core Real Estate	6.46	10.94	0.59	8.02	10.60	0.76
	Private Debt	7.67	13.74	0.56	9.29	13.21	0.70

Equal Changes in Portfolio Construction

	Asset Class	2021				2024			
		Weight	Return	Risk	Return/ Risk	Weight	Return	Risk	Return/ Risk
6 0 / 4 0	US Large Cap	30%	5.13	14.80	0.35	30%	8.19	16.19	0.51
	US Small Cap	15%	6.33	19.44	0.33	15%	9.07	20.44	0.44
	International Developed Equity	15%	7.80	16.92	0.46	15%	10.58	17.64	0.60
	Total Equity	60%				60%			
	Core Fixed Income	30%	2.16	3.43	0.63	30%	5.19	4.28	1.21
	IG Corporate Bonds	10%	2.69	6.22	0.43	10%	6.04	7.14	0.85
	Total Fixed Income	40%				40%			
Total Portfolio	100%	4.58%	11.55%	0.40	100%	7.57%	12.57%	0.60	
7 0 / 3 0	US Large Cap	35%	5.13	14.80	0.35	35%	8.19	16.19	0.51
	US Small Cap	18%	6.33	19.44	0.33	18%	9.07	20.44	0.44
	International Developed Equity	18%	7.80	16.92	0.46	18%	10.58	17.64	0.60
	Total Equity	70%				70%			
	Core Fixed Income	22%	2.16	3.43	0.63	22%	5.19	4.28	1.21
	IG Corporate Bonds	8%	2.69	6.22	0.43	8%	6.04	7.14	0.85
	Total Fixed Income	30%				30%			
Total Portfolio	100%	4.96%	12.80%	0.39	100%	7.93%	13.84%	0.57	

Which Lead to Changes in Behavior

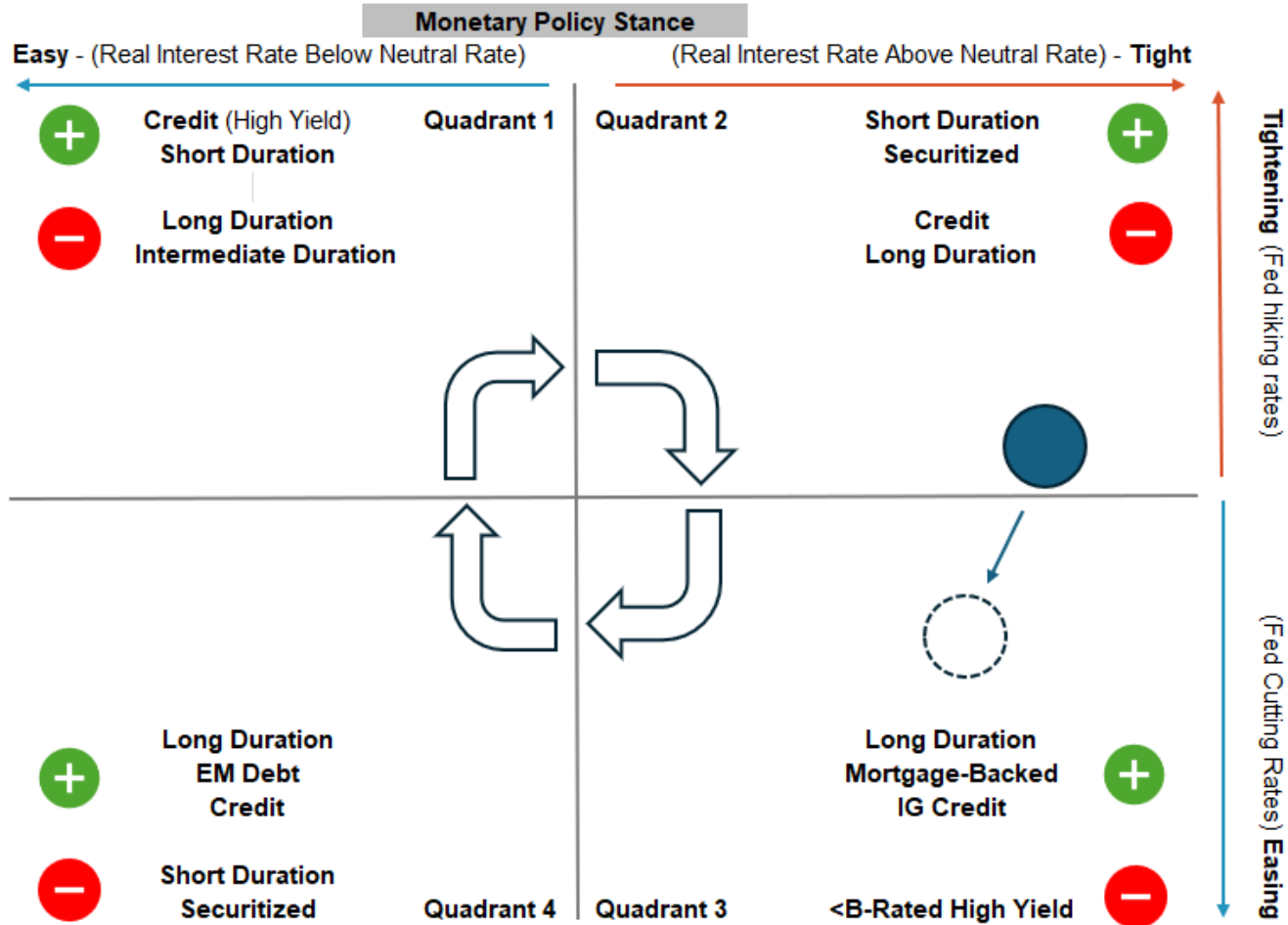
Asset Class	Fund Flows Year to Date	Fund Flows Trailing 12 Months
Core Fixed Income	\$35.5T	\$64.1T
Corporate Bonds	\$652.8M	\$979.7M
All Fixed Income	\$75.3T	\$75.4T

US Large Cap Equity	\$44.1T	\$121.5T
US Small Cap Equity	\$5.4T	\$14.6T
International Developed Equity	\$7.0T	\$18.8T
All Equity	\$75.8T	\$198.8T

Why We Like Fixed Income Today



Monetary Policy Cycle



Historical Returns by Quadrant

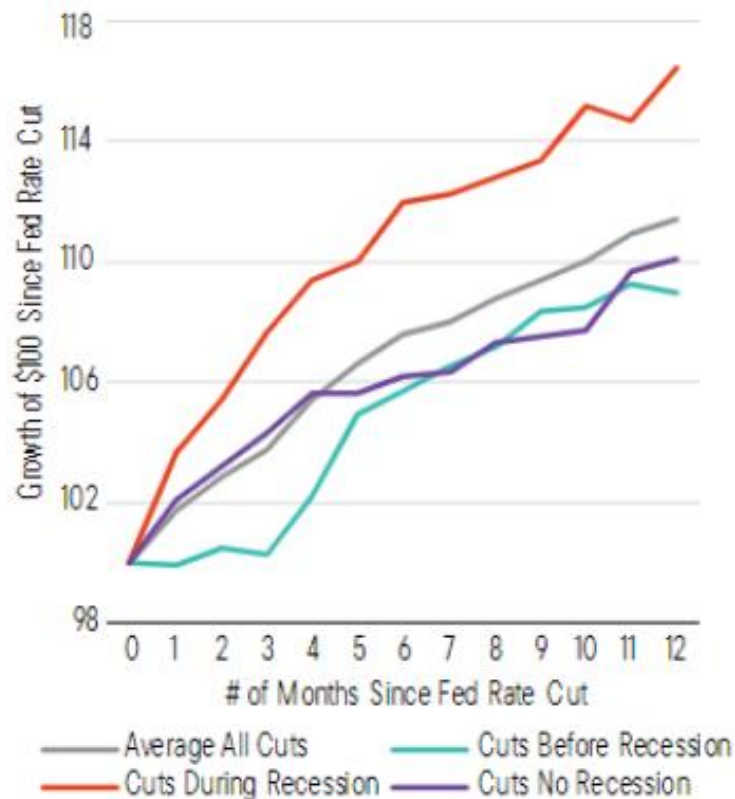
Return Environment when Monetary Policy is...

Index	Long-Term Annualized Return	Return Environment when Monetary Policy is...			
		Easy But Tightening	Tight & Tightening	Tight & Easing	Easy & Easing
Bloomberg US Agg	6.52%				
Bloomberg US Treasury 1-3 Yr	3.20%				
Bloomberg US Intermediate Treasury	5.99%				
Bloomberg US Long Treasury	6.93%				
Bloomberg US Corporate	6.96%				
Bloomberg US Corporate High Yield	8.21%				
Bloomberg US Securitized	3.90%				
Bloomberg Municipal Bond	5.94%				
Bloomberg US Mortgage-Backed Securities	6.47%				
Bloomberg Emerging Markets (USD)	8.10%				

0-1% Above LTA
1-2% Above LTA
2-4% Above LTA
>4% Above LTA
>8% Above LTA

0-1% Below LTA
1-2% Below LTA
2-4% Below LTA
>4% Below LTA

Historical Returns Post First Fed Rate Cut



Date of First Fed Cut	Stage of Business Cycle	US Treasury Subsequent Returns		
		3-Month	6-Month	12-Month
19-Aug	Before Recession	-1.10%	3.40%	7.00%
7-Sep	Before Recession	4.00%	8.60%	8.70%
1-Jan	Before Recession	0.30%	3.60%	6.60%
Jul-95	No Recession	3.70%	7.50%	5.10%
Jun-89	No Recession	0.80%	4.60%	6.80%
Nov-87	No Recession	5.70%	3.10%	7.80%
Sep-84	No Recession	7.10%	9.40%	20.60%
Apr-82	During Recession	4.20%	17.80%	26.10%
Jun-81	Before Recession	-2.20%	7.20%	13.60%
Apr-80	During Recession	15.10%	9.80%	13.10%
Jul-74	During Recession	3.70%	8.40%	10.10%
Average Before Recession		0.30%	5.70%	9.00%
Average No Recession		4.30%	6.20%	10.10%
Average During Recession		7.70%	12.00%	16.40%

As of December 29, 2023

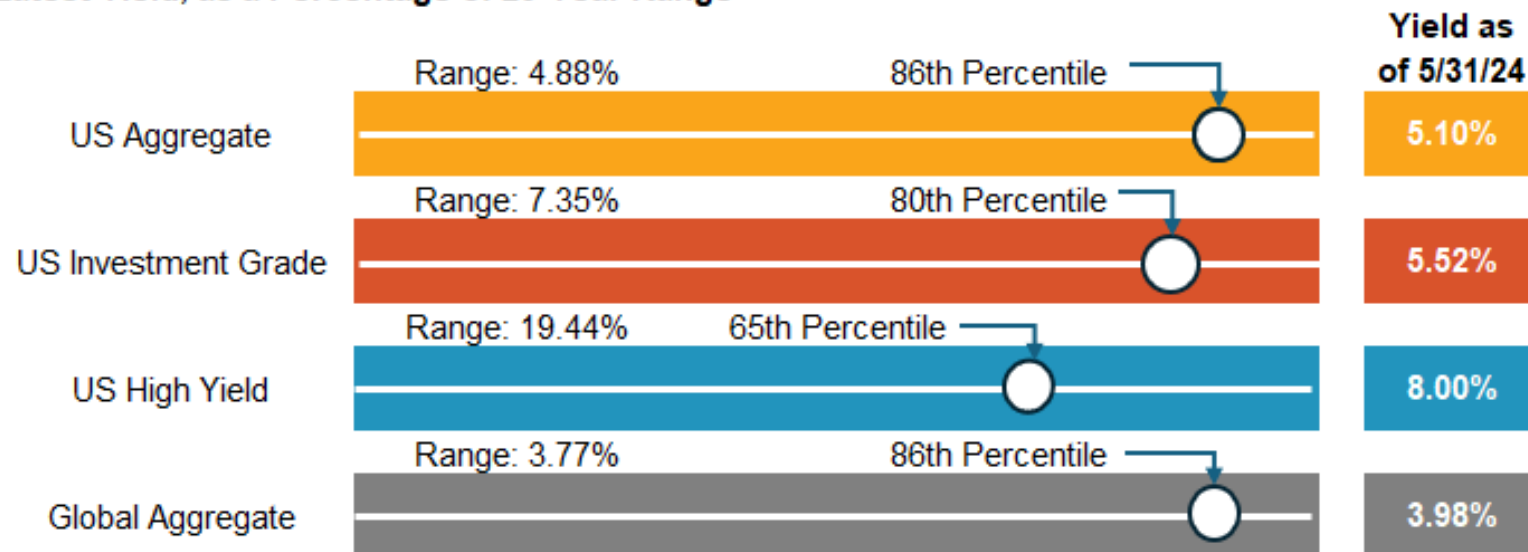
Sources: Franklin Templeton Institute, Federal Reserve, Bloomberg, NBER, Macrobond

Notes US Treasury is represented by the Bloomberg US Treasury Index. The analysis considers all first cuts following a series of rate hikes since 1972. A series of rate hikes (a hiking cycle) is defined as at least three hikes (or fewer if their magnitude exceeds 100 bps). Single cuts that occurred within longer hiking cycles are excluded (September 1973, November 1979, January 1981, and July 1987). In the line chart, the values are rebased with base value 100 on the month of the first cut.

Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results.

Current Yields Relative to Historical Norms

Latest Yield, as a Percentage of 20-Year Range

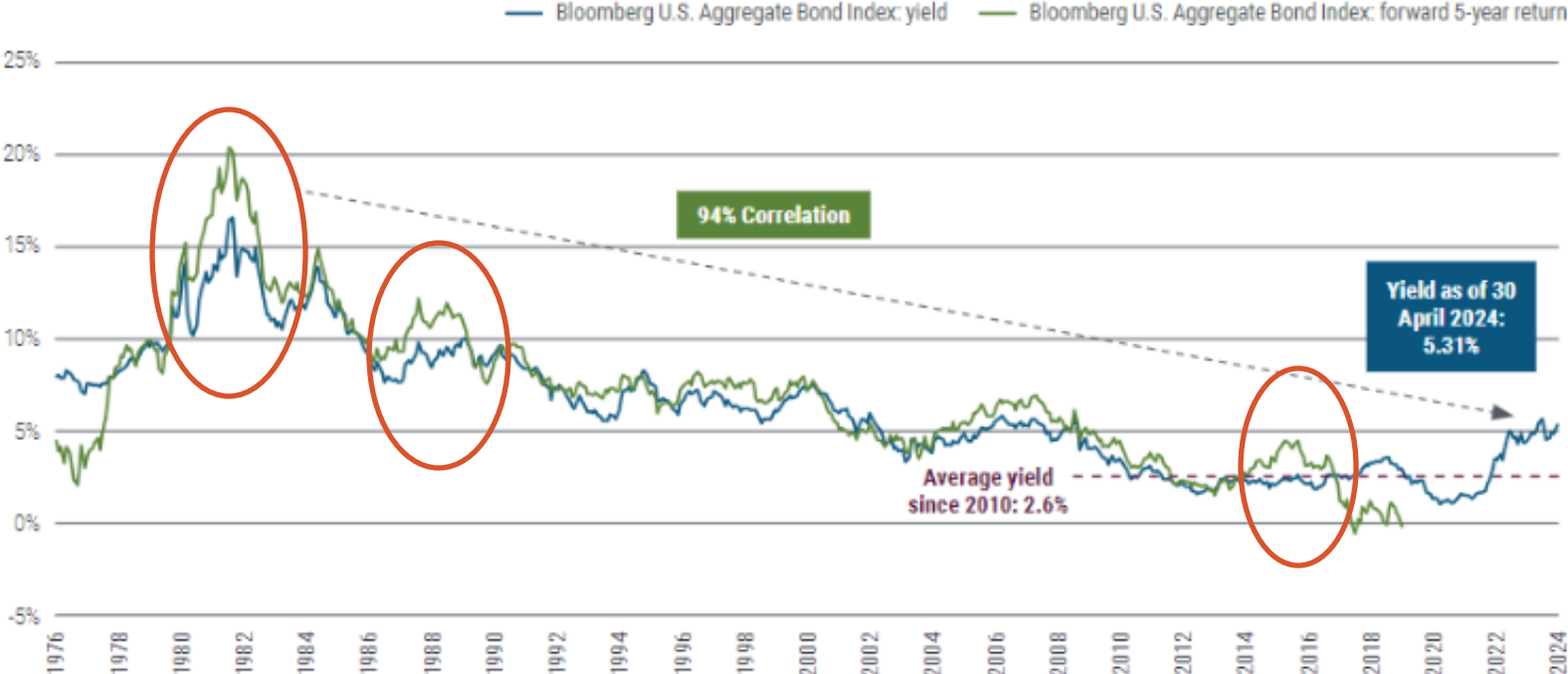


Source: Bloomberg

Data from May 10, 2004 through May 31, 2024

Yields measure Yield to Worst for the following benchmarks: Bloomberg Aggregate, Bloomberg High Yield, Bloomberg Global Aggregate and Bloomberg Investment Grade

Yield Matters



Source: eVestment

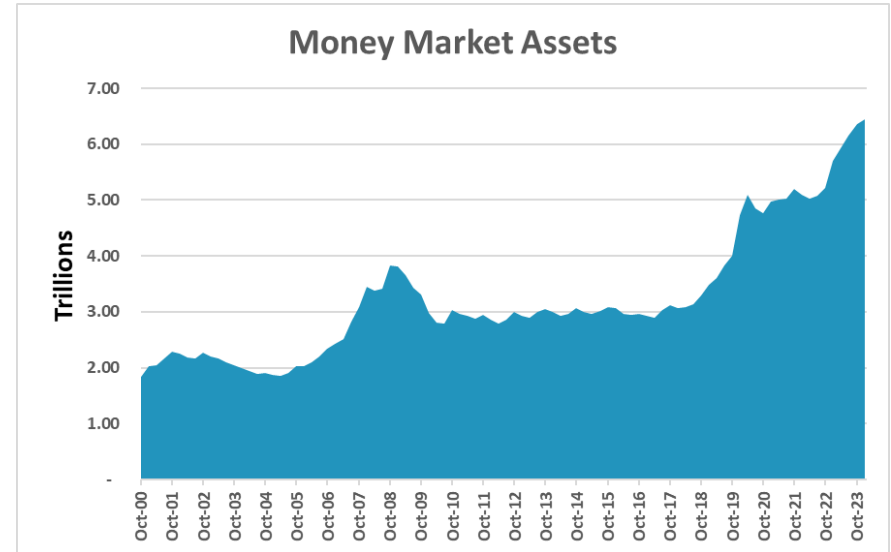
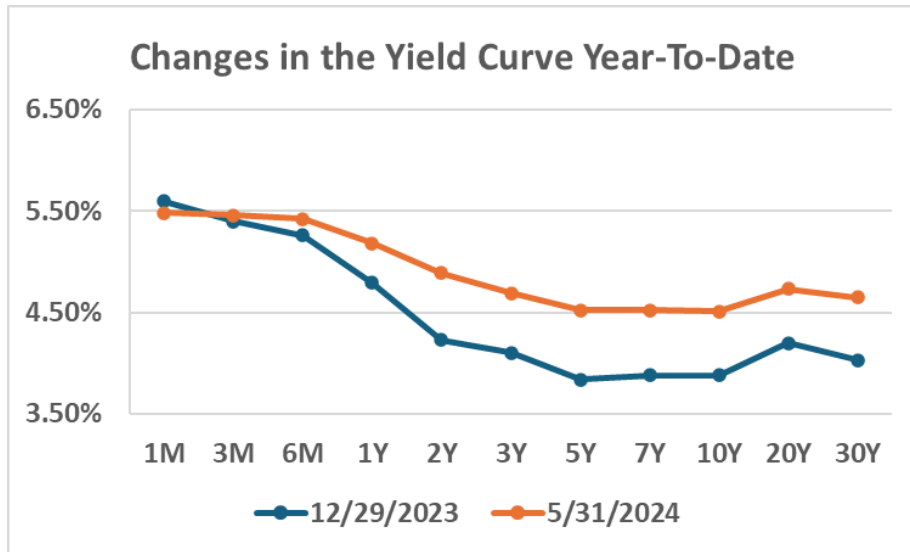
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Potential Opportunities in Fixed Income

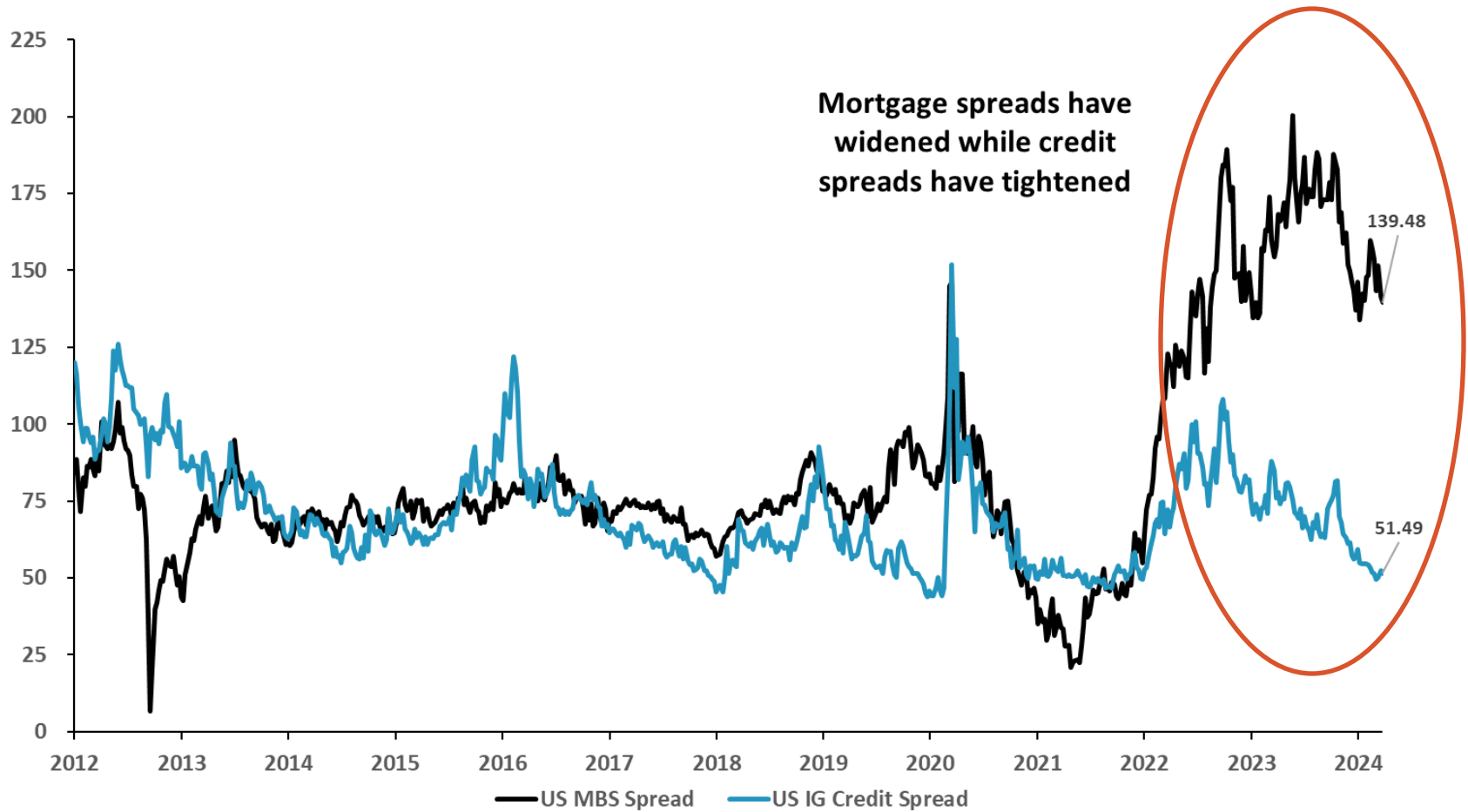


High Quality Short Duration



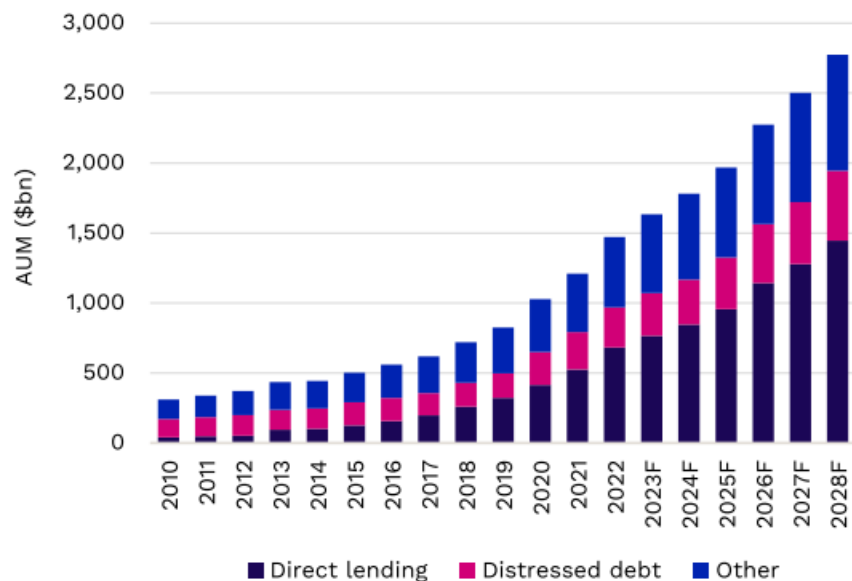
Source: Federal Reserve Bank of St. Louis, Bloomberg, Morgan Stanley Investment Management.
Yields measure Market Yield on U.S. Treasury Securities at 3-Year Constant Maturity, Quoted on an Investment Basis
Data in the left chart as of 5/31/24.
Data in the right chart as of 12/31/23.

Mortgage-Backed Securities

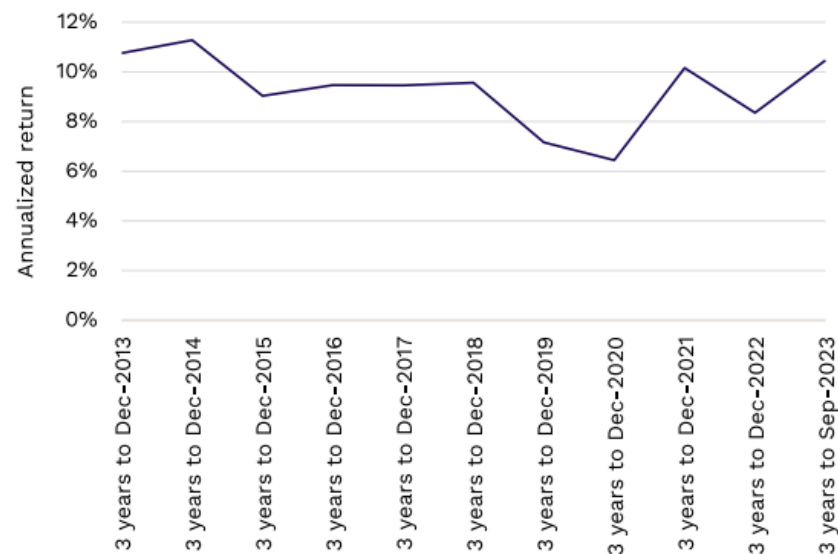


Private Credit – Senior Direct Lending

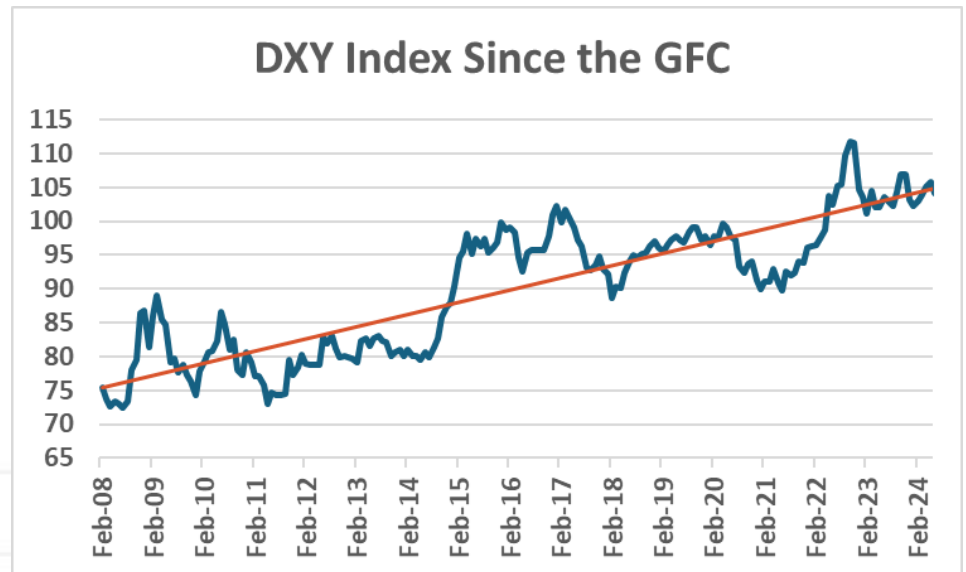
Global private debt AUM* by strategy



Direct lending three-year horizon IRRs



Emerging Market Debt



Past performance is no guarantee of future results

Source: Bloomberg, Morgan Stanley Investment Management, Wall Street Journal

Bloomberg Emerging Market Local Currency Government Bond Index used for EM Local Currency Debt. The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specified investment.

Data in the top graph as of May 31, 2024. Data in the bottom graph as of August 31, 2023

DXY measures the strength of the US dollar against a basket of six other currencies: Euro, Japanese Yen, Pound sterling, Canadian dollar, Swedish Krona and Swiss Franc.

Potential Risks



We Get a Repeat of 2022

- Interest Rate Hikes
 - Additional rate hikes would lead to a decline in bond prices
- Inflation Surge
 - Continued high inflation would lead to more Fed rate hikes, hurting bond prices
 - Higher prices could impact consumers and cause credit spreads to widen due to corporate uncertainty
- Housing Market Instability
 - Higher mortgage rates crushes housing affordability and impacts consumer buying power
- Indiscriminate Investor Selling
 - Even high-quality assets (i.e. Treasuries) suffered in 2022 and high correlation between asset classes meant there was no place to hide for investors.

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