

**GARCIA HAMILTON & ASSOCIATES**

# **Fixed Income Markets**

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# Risk Tools

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Duration Relative to Benchmark

Yield Curve Positioning

Sector Allocation

# Durations and Returns

Index	Duration	YTD Return	2023 Return
Aggregate	6.06	2.94%	5.53%
1 - 3 Year	1.76	4.16%	4.65%
Intermediate	4.34	3.43%	5.18%
10+ Year	13.58	0.68%	6.36%

# Drivers of Yield Changes

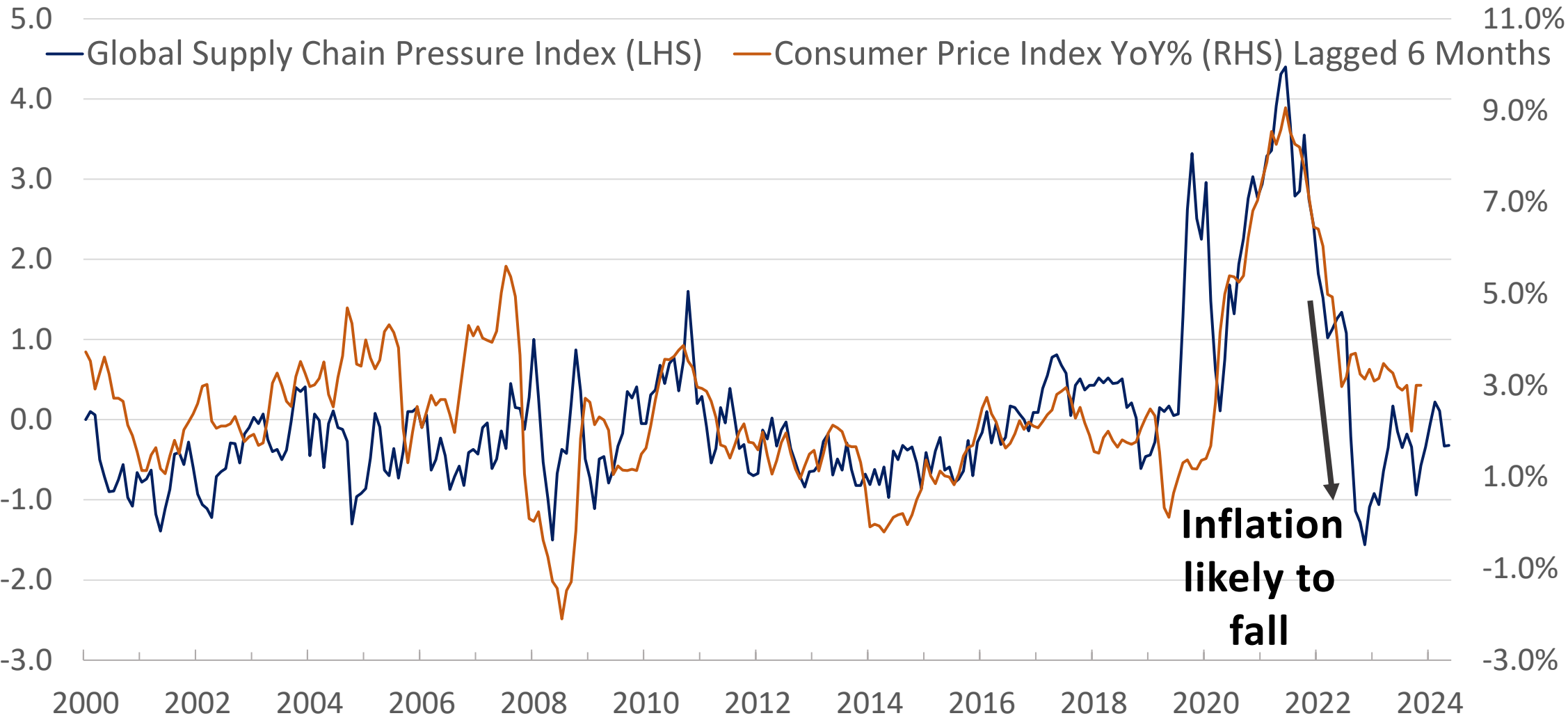
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Inflation (Decline in Purchasing Power)

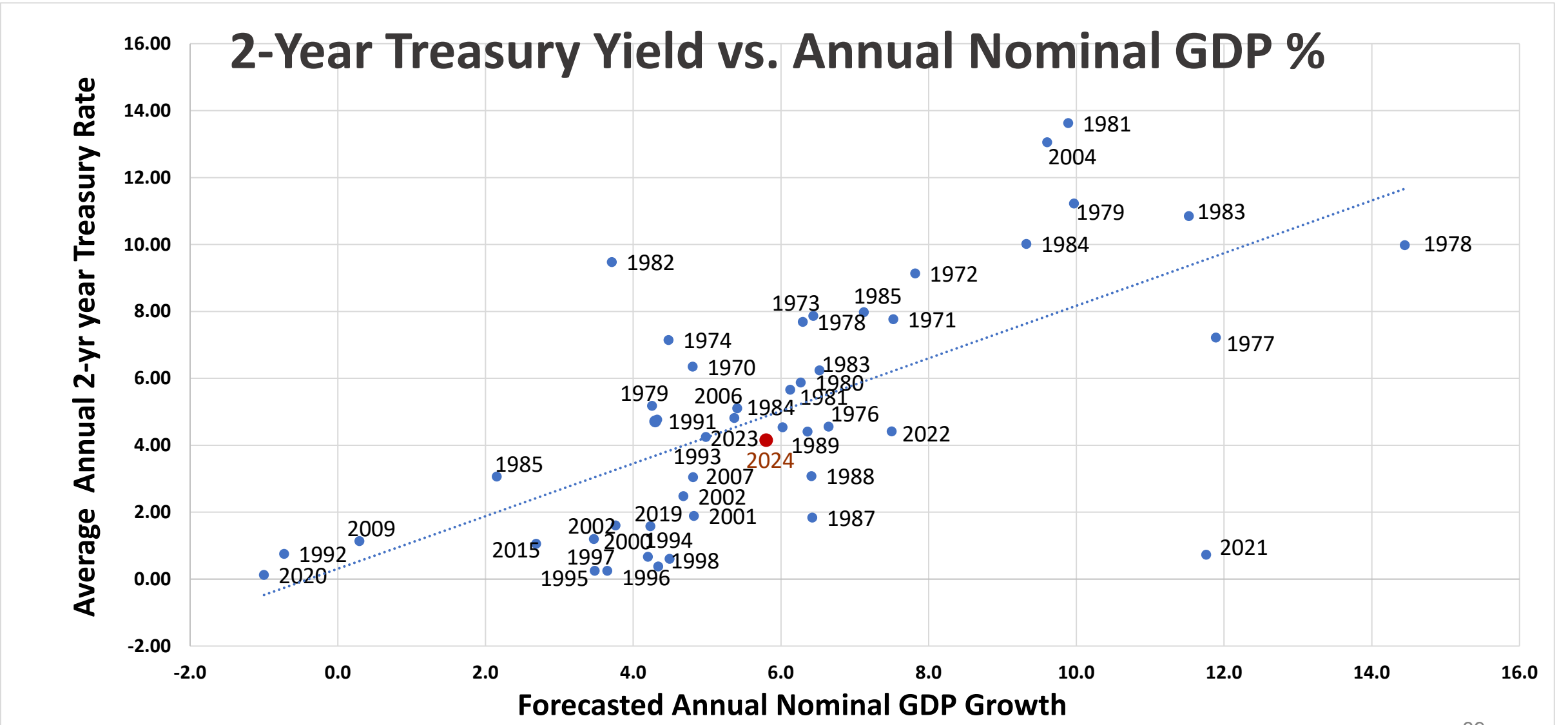
Economic Strength or Weakness

Market Anticipating Fed Policy

# Supply Chain Pressures Easing

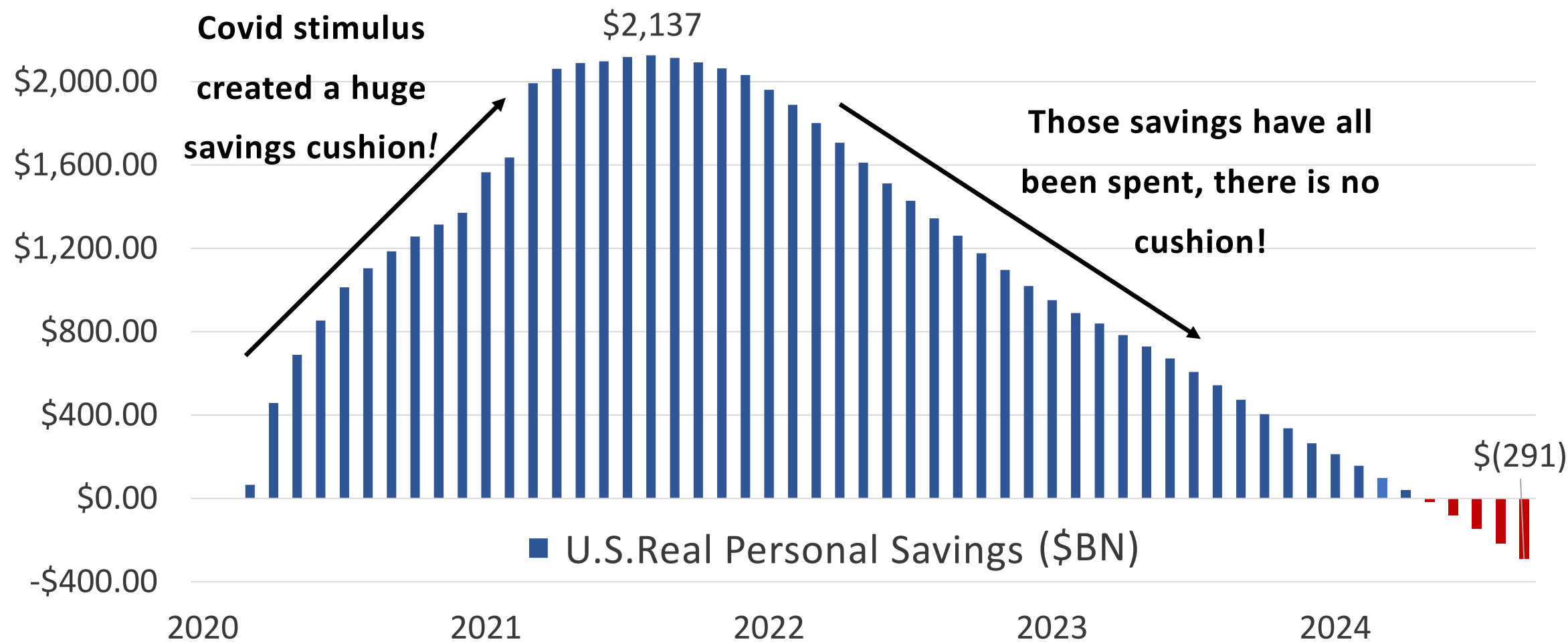


# Yields Positively Correlated with GDP



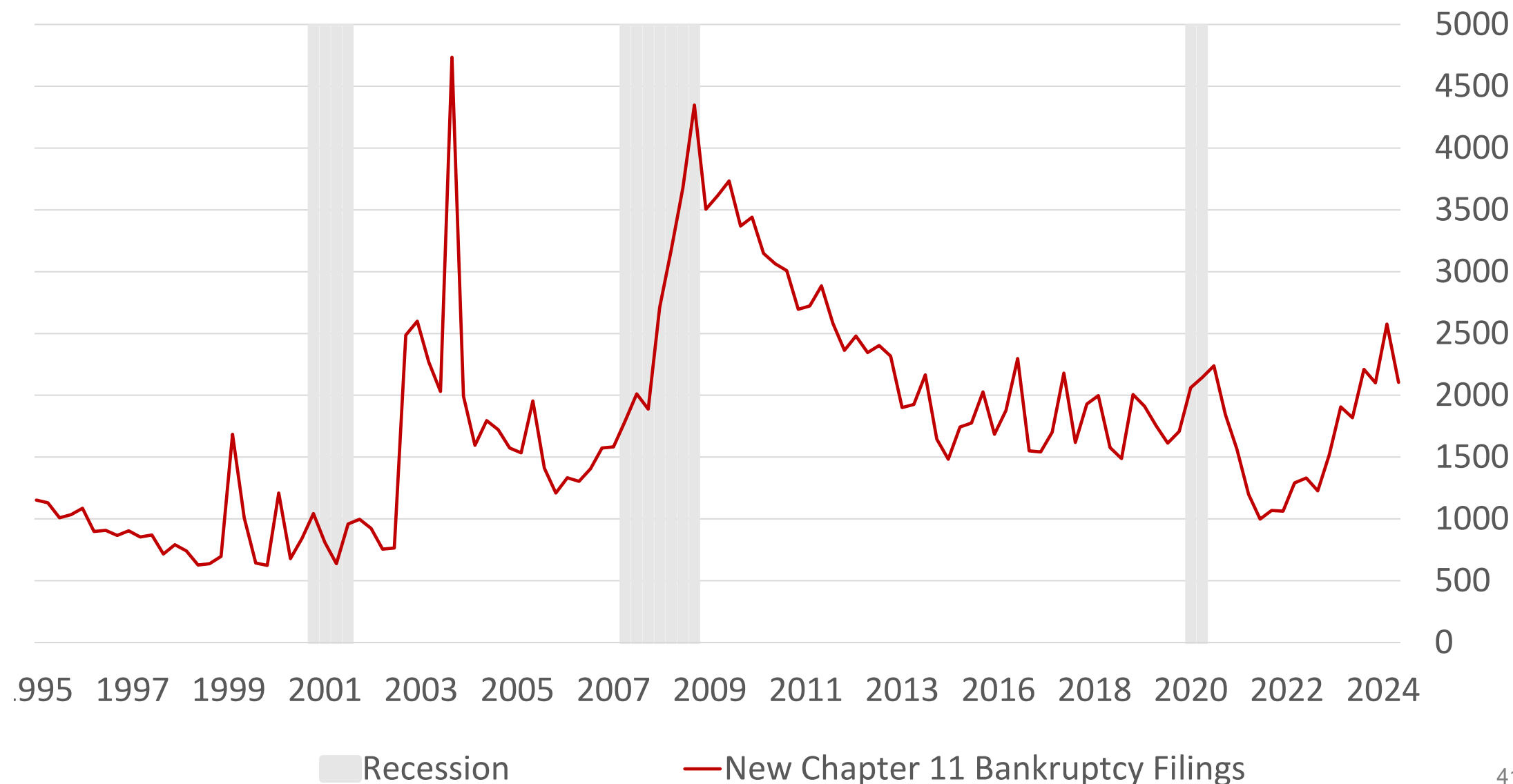
2024 estimate of Nominal GDP is based on the Survey of Professional Forecasters projected Real GDP (2.7%) and inflation (3.1%) numbers for the U.S. for 2024.

# Cumulative Excess Savings Cushion Has Been Spent



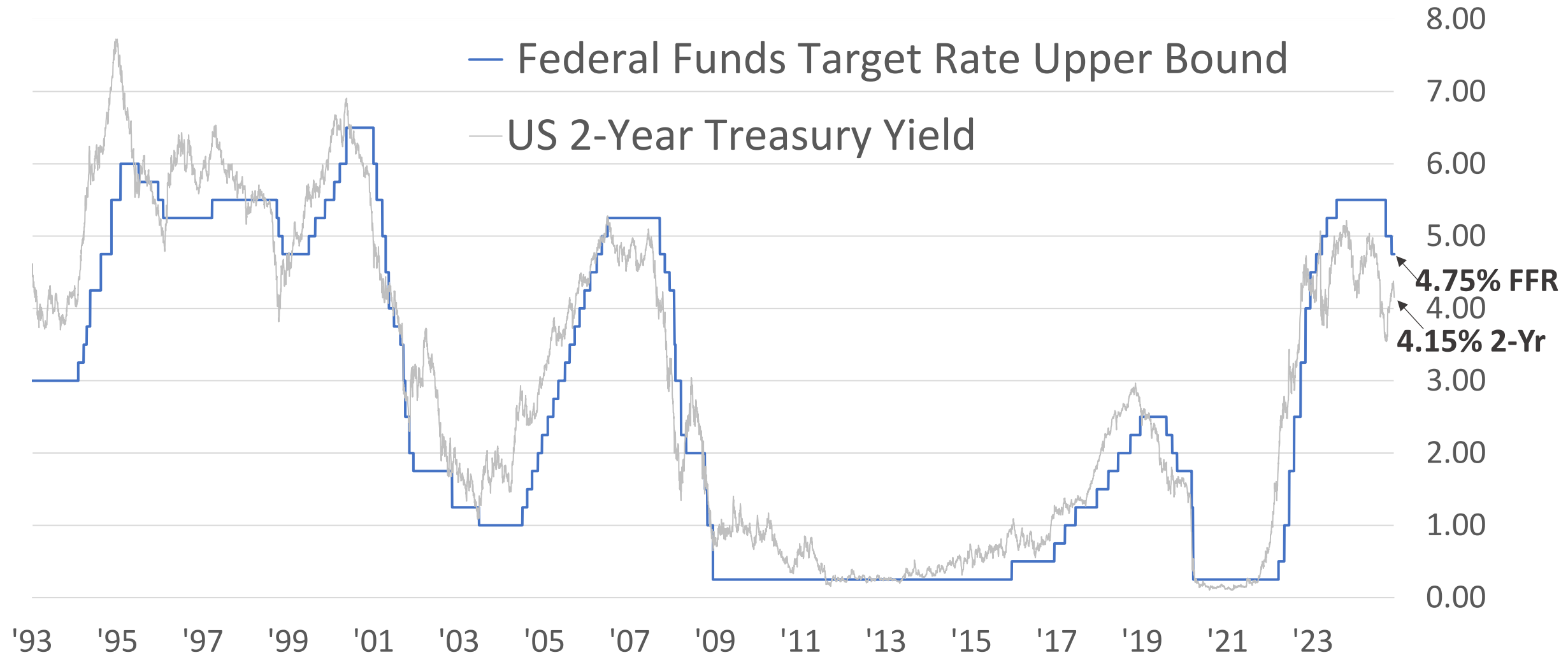
Note: Excess savings is calculated as the accumulated difference in actual de-annualized personal savings versus the trend implied by data for the 48 months leading up to the first month of the 2020 recession as defined by the NBER

# Quarterly Filings for Chapter 11 Bankruptcy Protection





# Market Anticipates Fed Policy



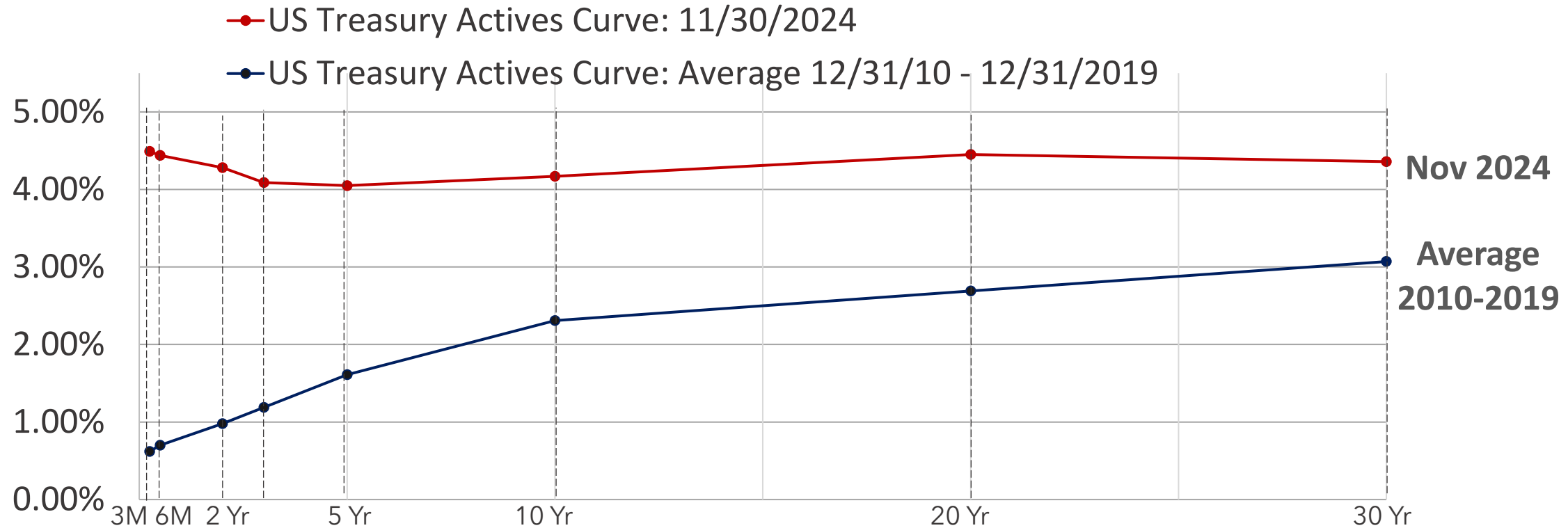
# Yield Curve

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In a Fed hiking cycle, short-term rates rise more than long-term rates. This dynamic is called a “flattening” of the yield curve.

In a Fed cutting cycle, short-term rates fall more than long-term rates. This dynamic is called a “steepening” of the yield curve.

# Yield Curve Changes



	Average 2010-2019	November 2024	Difference
3 Month	0.62%	4.49%	+3.87%
2 Year	0.98%	4.15%	+3.17%
5 Year	1.61%	4.05%	+2.44%
10 Year	2.31%	4.17%	+1.86%
30 Year	3.07%	4.36%	+1.29%
3 Month - 30 Year	2.45%	-0.13%	-2.58%

# Sector Allocation

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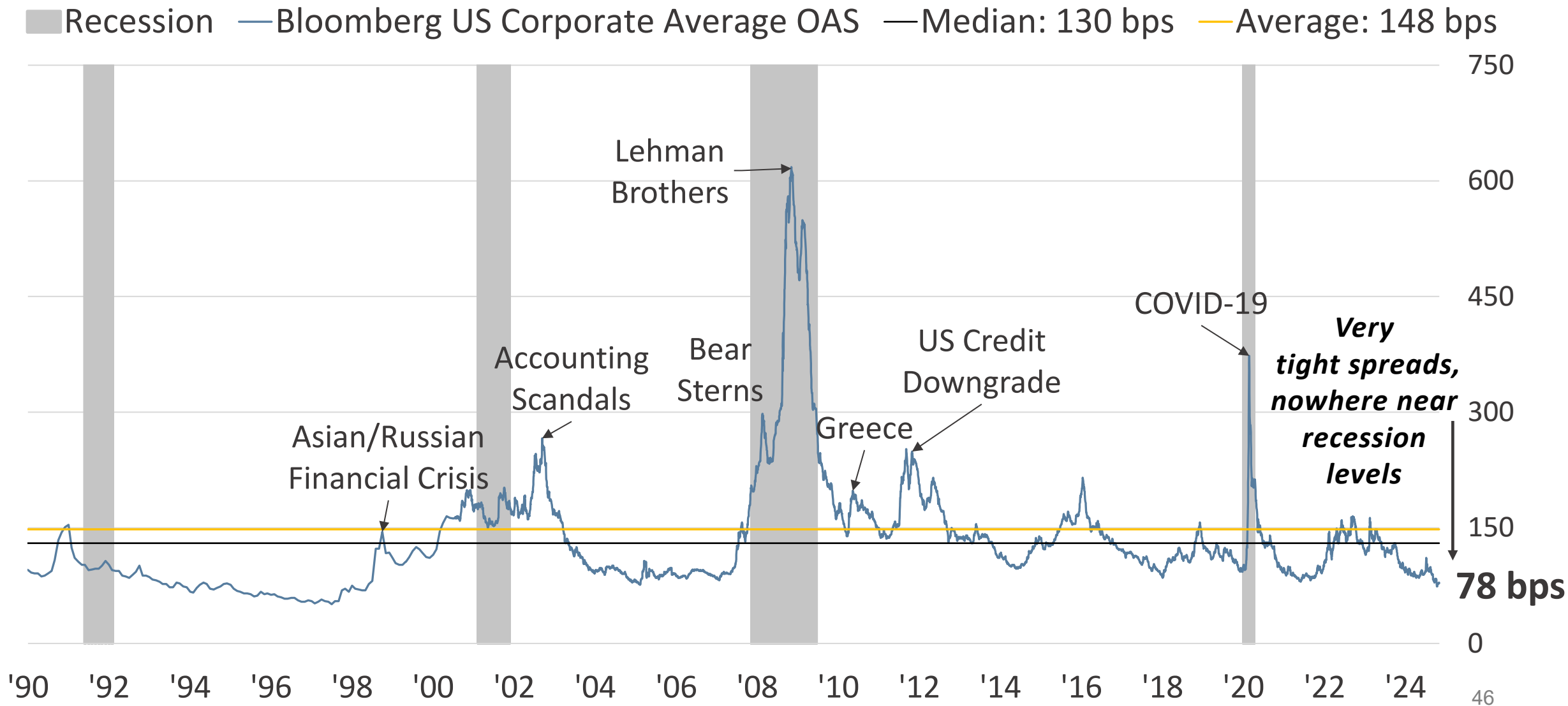


Corporate Spreads

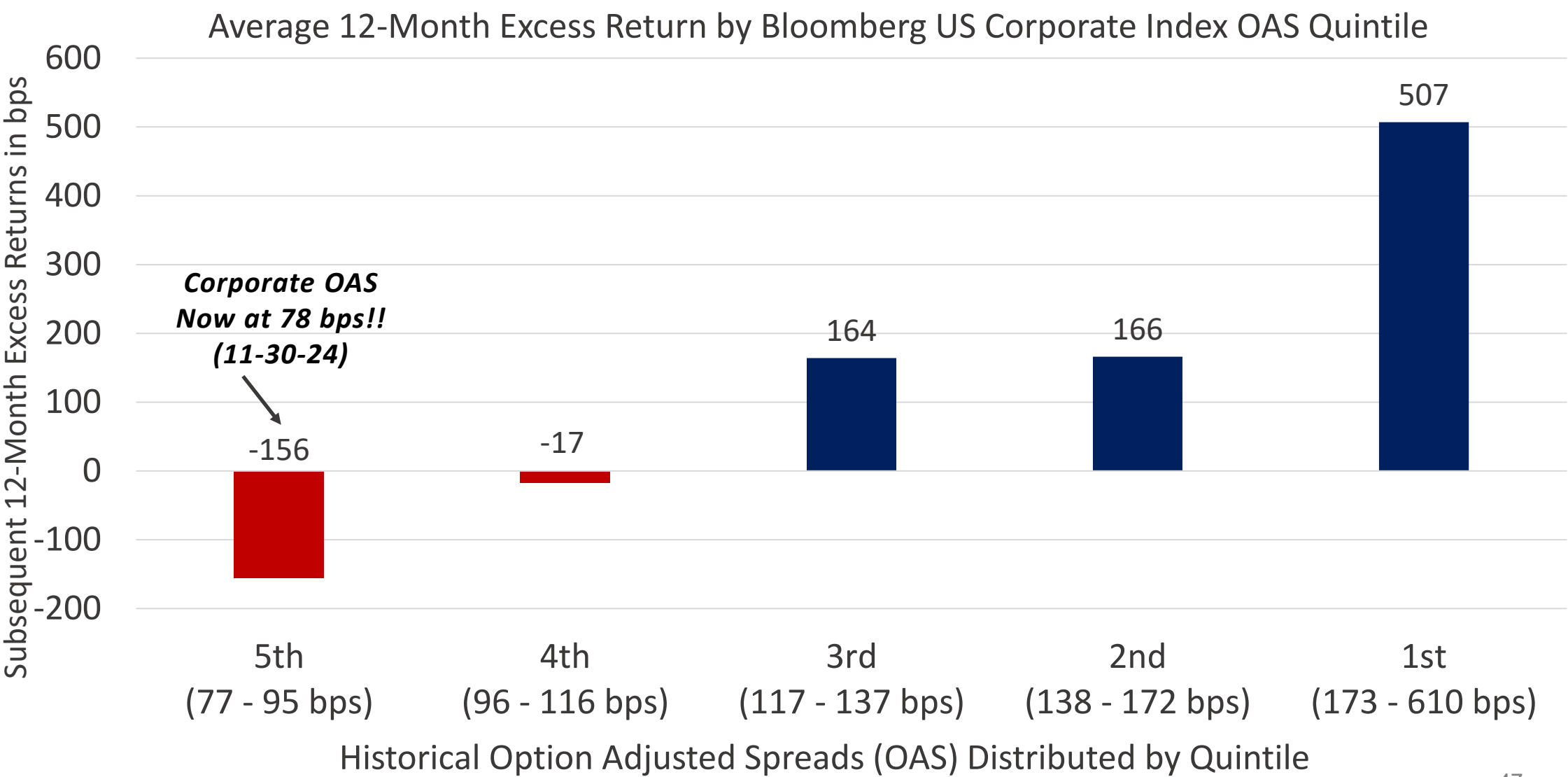
Mortgage Spreads

Relative Value

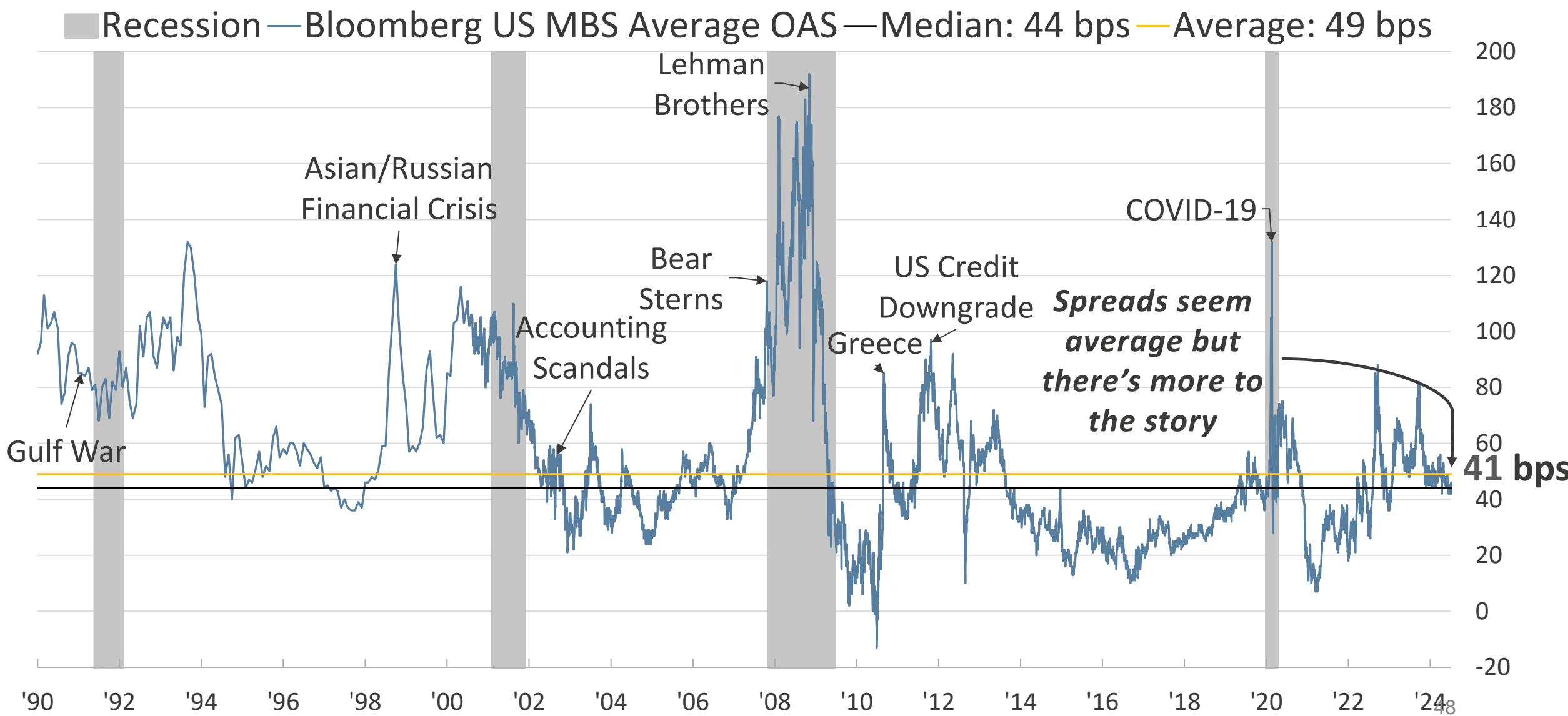
# Average Option Adjusted Spreads OAS



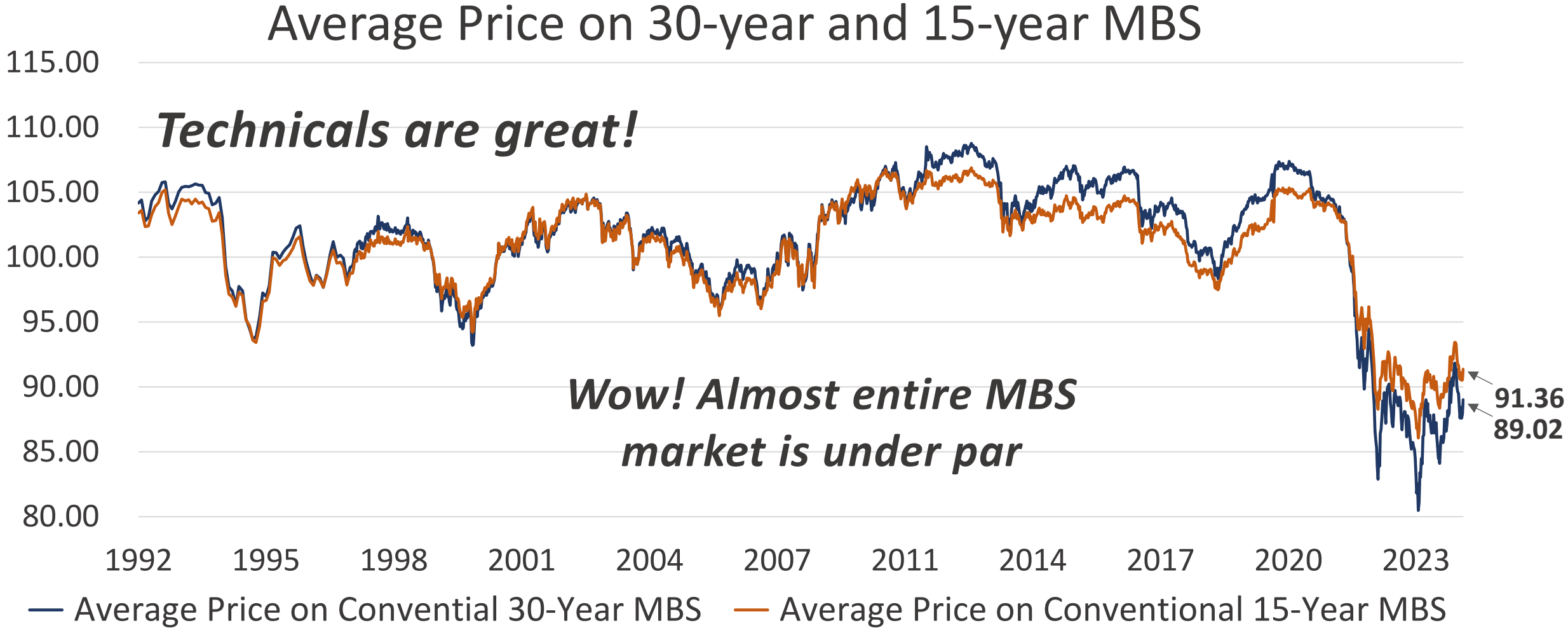
# Corporate Spreads at Levels Associated with Low Returns



# Mortgage Option Adjusted Spreads (OAS)



# MBS Market is Trading at Historically Low Prices





# Yield Table Analysis

FN MA4599 Mtge										Yield Table										
100% FNCL 3 M					3.813(324)32		CUSIP 31418EDD9			Pool Level		As of 12/2024								
12/24	4.6C						Coupon		3.00%		Maturity		05/01/52		CA	23%	2022	100%		
3Mo	4.4						LTV/HLTV		76/72						TX	5%	2021	0%		
6Mo	4.7														CO	5%	2020	0%		
12Mo	4.4														FL	5%				
Life	3.5		# Loans				20,445													
										1) Price-to-Yield										
Settle	12/19/24			CF			CF			CF			CF			CF				
Prepayment		0		0 CPR		4.6 CPR		10 CPR		15 CPR		20 CPR		25 CPR		30 CPR				
Yield		84-31+		4.42		5.06		5.96		6.90		7.92		9.02		10.20				
Price																				
Avg Life				15.83		10.50		7.04		5.20		4.03		3.24		2.68				
Mod Duration				11.02		7.41		5.07		3.82		3.01		2.45		2.04				
Prin Win		Date		1/25-12/51		1/25-12/51		1/25-12/51		1/25-12/51		1/25-12/51		1/25-12/51		1/25-12/51				
I Spread				-23		55		151		250		355		467		586				
Dec24	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	GOVT(1)	6M	1Y	2Y	3Y	5Y	7Y	10Y	30Y
77P	74	70	89	87	89	113	119	90	61	50	87	14:43	4.31	4.29	4.35	4.35	4.40	4.45	4.50	4.65
4.6C	4.5	4.2	5.2	4.9	4.8	5.9	5.9	4.3	2.8	2.2	3.7	Disc	30/360	10Y	98-01	20Y	98-10			

Spread is negative (23) to Treasuries at a worst case prepayment - 0 (zero)

With huge upside potential if rates decline and prepayments accelerate

# Summary and Outlook

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- Duration management, yield curve positioning, and sector exposure are key risks to monitor in your fixed income manager's portfolio.
- Expect to see lower yields as the economy continues to decelerate and inflationary pressures continue to moderate.
- In the bond market, expect corporate spreads to widen and for the yield curve to steepen.