Fixed Income Quarterly Commentary

Growth Through Stability

Q2 ▪ 2022

Market Update

Fixed income markets posted negative returns in the second quarter as inflation and the corresponding Federal Reserve rate hikes were the main overhang on the bond market. The Fed has pivoted from supporting the economy after COVID to now focusing on fighting inflation. It raised short term interest rates by 50 basis points in May and another 75 basis points in June and it is likely to raise rates 50 or 75 basis points at the meetings in July and September unless inflation starts to moderate. While this aggressive response from the Fed is warranted, it increases the risk of recession which is an additional overhang on the market.

Given the high level of inflation in the economy, investors now demand a higher return on new debt. This has driven bond prices lower to increase the yield. However, we believe nothing has changed with respect to the quality of the underlying bonds in the AMI strategies. Typical bond issuers are required to make fixed payments every 6 months and return principal at maturity. This is a contractual obligation and provides long term protection for bond investors.

Taxable and High Yield Bonds

Taxable bonds fell in the second quarter as Treasury yields adjusted to the Federal Reserve raising rates and inflation staying elevated. Investment grade corporate bonds are more sensitive to interest rates and thus posted a -6.7%[1] return for the second quarter. High yield corporate bonds tend to have less exposure to interest rates and more to corporate fundamentals. As the risk of recession has increased, high yield posted a -9.97%[1] return for the second quarter.

At AMI, we select our corporate bonds based on stable cash flows and improving balance sheets. This gives us the confidence to look past short term price movements and invest for the long term. We continue to firmly believe that all AMI taxable holdings will make their interest and principal payments.

Municipal Bonds

Tax exempt municipal bonds posted mixed returns in the second quarter with 1-3 year municipal bonds returning 0.20%[2], 3-7 year bonds returning -0.75%[2], and 7-12 year bonds returning -2.32%[2]. Municipal bonds reset lower on inflation concerns with investors demanding higher levels of yield. However, most municipal balance sheets are solid following strong tax revenues and Federal COVID support over the last two years.

At AMI, we continue to focus on essential services (water, sewer, electric), and redevelopment agencies/mello-roos (backed by property taxes) with clear cash flows and low pension expense. Longer term, certain parts of the municipal bond market will struggle with large pension liabilities, and we believe our strategy will avoid those issuers. We continue to firmly believe that all AMI municipal holdings will make their interest and principal payments.

AMI
ASSET MANAGEMENT

10866 Wilshire Blvd, Ste. 770, Los Angeles, CA 90024 · 424-320-4000 · www.amiassetmanagement.com

Disclosures

Growth Through Stability

Q2 ▪ 2022

Disclosures

AMI Asset Management (AMI) is an independent investment management firm registered with the Securities and Exchange Commission since 1994. Registration does not imply a certain level of skill or training. AMI provides discretionary asset management services to institutional and individual clients through separately managed accounts using seven equity and fixed income strategies.

The information contained herein has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities. Forward-looking statements are necessarily speculative in nature. It can be expected that some or all of the assumptions or beliefs underlying the forward-looking statements will not materialize or will vary significantly from actual results or outcomes.

To receive a complete list of composite descriptions, GIPS® Reports, or the latest copy of our ADV Part 2 contact Katharine Kim at (424) 320-4003 or write AMI Asset Management Corporation, 10866 Wilshire Boulevard Suite 770, Los Angeles, California 90024, or Katharine@amiassetmanagement.com.

1. Figures presented on page one are from the following indices as of 6/30/22 - ICE BofAML US Corporate Index, ICE BofAML US High Yield Index.

2. Figures presented on page one are from the following indices as of 6/30/22 - ICE BofAML 1-3 Year US Municipal Securities Index, ICE BofAML 3-7 Year US Municipal Securities Index, ICE BofAML 7-12 Year US Municipal Securities Index.