

Q3 • 2022

Capital Market Outlook

Fixed income markets continued to struggle in the third quarter, adding to large declines during the first half of the year. Inflation continued to run above the Federal Reserve target, prompting additional interest rate hikes. At the beginning of 2022 the Federal Reserve Fed funds rate was 0.25% and we are now at 3.25% after the September meeting. This is the fastest the Federal Reserve has ever increased rates and they will likely continue to hike rates into early 2023. This rapid rise has hurt all fixed income assets regardless of quality and the bond market looks likely to post its largest annual decline on record.

At AMI, we focus on high quality bonds and a balanced approach with maturities. While this has provided us protection in the past, it has done little to cushion us from the negative wave sweeping over the asset class. It is important to keep in mind that a bond is a contractual obligation that requires the issuer (The Federal Government, Municipalities, Corporations, etc.) to make a coupon payment every 6 months and return the full principal amount at maturity. These coupon and principal payments are non-negotiable. We are confident that your bond holdings will continue to produce stable cash flow regardless of short-term principal value fluctuations and we believe that they will ultimately return the full par value.

Please reach out to us if you want to see detailed cash flow information for each bond in your account. We understand that the unprecedented returns in fixed income markets this year have been difficult, but we remain confident in the bonds we hold.

Taxable and High Yield Bonds

Taxable bonds fell in the third quarter as Treasury yields increased with higher inflation. Investment grade corporate bonds tend to be more sensitive to interest rates than high yield bonds and thus posted a $-5.11\%^1$ return for the third quarter. High yield corporate bonds tend to trade more with corporate fundamentals and performed better with a $-0.68\%^1$ return for the third quarter.

At AMI, we focus on corporate bonds with stable cash flow and improving balance sheets that could drive credit rating upgrades. 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.



Q3 ▪ 2022

Municipal Bonds

Tax exempt municipal bonds posted negative returns in the third quarter with 1-3 year U.S. Municipal Bond Index returning -1.46%², the 3-7 year Index returning -2.59%², and 7-12 year Index returning -2.56%². Municipal bonds prices declined on the aforementioned inflation concerns, however, most municipality balance sheets remain solid following strong tax receipts in 2021 and Federal COVID support over the last two years.

At AMI, we continue to focus on essential services (water, sewer, and electric), and Mello-Roos (backed by property taxes) issuers with clear cash flows and low pension liabilities. We are specifically avoiding certain parts of the municipal bond market that we believe will struggle with large pension liabilities. We continue to firmly believe that all AMI municipal holdings will make their interest and principal payments.



Q3 ▪ 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 two are from the below indices as of 9/30/22 ICE BofAML US Corporate Index, ICE BofAML US High Yield Index
2. Figures presented on page two are from the below indices as of 9/30/22 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.

