

Q2 - 2024

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## Market Update

The fixed income market in the second quarter was characterized by a state of anticipation, with investors waiting for clear signals from both the economy and the Federal Reserve. Economic data softened during the quarter, but inflation needs to decline further to meet the Fed's 2% target. The Federal Reserve acknowledged progress on inflation but indicated a likely stance of patience regarding interest rate cuts until later in the year. Meanwhile, the bond market contended with a supply-demand imbalance in Treasuries stemming from increased Federal Government issuance to cover a \$2 trillion deficit this year, alongside reduced demand from the Fed scaling back purchases. These dynamics contributed to a rise in the 10-year treasury yield, closing the quarter at 4.40%, up from 4.20% at the start of the quarter and 3.93% at the beginning of the year. At AMI, we maintain a cautious outlook, skeptical of a "soft landing" scenario where the economy avoids recession and inflation moderates, given signs of economic deterioration. Consequently, we have adopted a defensive position, avoiding exposure to the more cyclical sectors of the market.

## Core Taxable Fixed Income

Core taxable accounts delivered positive returns in the second quarter, largely in line with the index's 0.71%<sup>1</sup> gain. This performance was driven by varying factors: taxable municipal bonds lagged behind other government bonds, while corporate bonds outperformed, bolstered by robust economic conditions. We continue to exercise caution regarding increasing cyclical exposure in portfolios, opting instead to bolster intermediate treasury holdings throughout the second quarter.

## Municipal Bonds

Municipal accounts were up in the second quarter, surpassing the index which experienced a decline of -0.21%<sup>2</sup>. The municipal markets exhibited an unusual trend during the second quarter influenced by interest rate fluctuations and mutual fund movements. Notably, short-term bonds (1-3 year maturities)<sup>3</sup> and longer-term bonds (12+ year maturities)<sup>3</sup> posted gains, while intermediate bonds (3-12 year maturities)<sup>3</sup> saw negative returns. Our strategy of favoring longer maturities with shorter calls proved beneficial, contributing to our outperformance in the second quarter. At AMI, our focus remains steadfast on essential service sectors such as water, sewer, and electric utilities, alongside Mello-Roos bonds backed by predictable property tax revenues and minimal pension liabilities.



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## High Yield Fixed Income

High Yield accounts posted positive returns in the second quarter, yet they lagged behind the index, which gained 1.25%<sup>4</sup>. This underperformance was primarily driven by our overweight position in higher rated corporate bonds. Our stance remains cautious on the economy, and we are strategically positioned for a potential economic slowdown. Our focus is on higher quality bonds that we believe will be less vulnerable to a recession.



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### 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.

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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](mailto:Katharine@amiassetmanagement.com).

1. Figures presented on page one are from the ICE BofAML 1-10 Year US Corp and Government Index as of 6/30/24
2. Figures presented on page one are from the ICE BofAML 3-7 Year US Municipal Securities Index as of 6/3/24
3. Figures presented on page one are from the ICE BofAML 1-3 Year, 3-7 Year, 7-12 year, and 12+ year US Municipal Securities Index as of 6/30/24
4. Figures presented on page two are from the ICE BofAML 1-10 Year US High Yield BB-B Index as of 6/30/24

