Fixed Income Quarterly Commentary

Growth Through Stability

Q3 ▪ 2024

Market Update

The third quarter marked a reversal after three years of high inflation and Federal Reserve interest rate hikes. In 2022, the Fed began raising interest rates after lagging behind on inflation in 2021. By March 2022, it faced a significant challenge in slowing an economy buoyed by consumer savings and fiscal stimulus. The Fed eventually raised rates to 5.25% in July 2023, maintaining that level for over a year. With the economy slowing and inflation moderating, the Fed cut interest rates by 50 basis points at the September meeting. This move had been widely anticipated, leading to a dramatic downward shift in the treasury yield curve before the meeting. At the start of the third quarter, the yield on the 10-year treasury was 4.40%, falling to 3.78% by the end of the quarter. Yields across the curve also fell, driving up the prices of existing bonds and generating solid returns for fixed-income assets across various maturities and ratings. However, the bond market is facing pressure from a supply-demand imbalance where the Federal government is issuing substantial debt to cover the unprecedented $2 trillion budget deficit, while at the same time the Fed is reducing its holdings. This dynamic is likely to keep interest rates volatile, but yields will continue to reflect the path of the economy and inflation. At AMI, we maintain a cautious outlook, skeptical of a "soft landing" scenario where the economy avoids recession and inflation moderates, especially given signs of economic deterioration. Consequently, we have adopted a defensive position, avoiding the more cyclical sectors of the market.

Core Taxable Fixed Income

Core taxable accounts delivered positive returns in the third quarter, largely in line with the index's 4.15%[1] gain. This performance was primarily driven by taxable municipal bonds, which outperformed other government bonds. Corporate bonds also experienced strong returns, supported by robust corporate cash flows. We remain cautious about increasing cyclical exposure in our portfolios, opting instead to increase our intermediate Treasury holdings throughout the quarter.

Municipal Bonds

Municipal accounts were up in the second quarter but lagged the index which returned 2.96%[2]. We saw a reversal of the second quarter, where intermediate maturities (3-7 years)[3] outperformed both shorter (1-3 years)[3] and longer maturities (12 year+)[3]. Our strategy of favoring longer maturities with shorter calls was a headwind, contributing to our underperformance in the third 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.

High Yield Fixed Income

High Yield accounts posted positive returns in the third quarter but lagged the index, which gained 4.39%[4]. This underperformance was primarily driven by an overweight position in higher rated corporate bonds, given our cautious stance on the economy. Our focus remains on higher quality bonds that we believe will be less vulnerable to economic pressures.

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

Disclosures

Growth Through Stability

Q3 ▪ 2024

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 ICE BofAML 1-10 Year US Corp and Government Index as of 9/30/24

2. Figures presented on page one are from the ICE BofAML 3-7 Year US Municipal Securities Index as of 9/30/24

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 9/30/24

4. Figures presented on page two are from the ICE BofAML 1-10 Year US High Yield BB-B Index as of 9/30/24