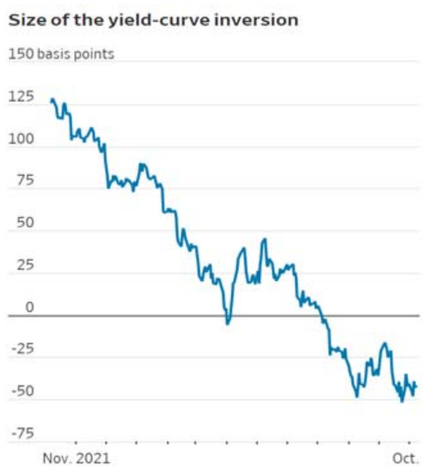
Third Quarter 2022
Bond Market Review
and Outlook

Cincinnati Asset Management, Inc.

Investment Grade & High Yield Bond Specialists

"These are very, very serious things [inflation, interest rate hikes, quantitative tightening unknowns and Ukraine war] which I think are likely to push the U.S. and the world..into some kind of recession six to nine months from now" (source: JP Morgan Chase CEO Jamie Dimon on CNBC 10/10/22)



Note: Series shows 10-year yields minus two-year yields. A basis point is one one-hundredth of a percentage point.
Source: Tradeweb

The recent hotter than expected jobs data sent the Dow Jones Industrial Average down over 600 points on Friday, October 7. That day the 10-year Treasury note yield rose to 3.88% and reached a multiyear high of 4.03% on October 14 (source; Bloomberg 10/18/22). Investors continue to react negatively to strong jobs data that will cause the Federal Reserve to continue its aggressive interest rate increases to battle inflation.

The strong jobs reports and low unemployment provide justification for further rate increases to lower inflation. The logic seems to be that if jobs and unemployment have weathered the interest rate increases to date, then it might be able to endure further increases without inducing a damaging recession resulting in job losses and higher unemployment.

The FED appears to expect that the interest rate increases and quantitative tightening (decreasing the FED's balance sheet) will lower inflation and result in a "soft landing" of the economy, maintaining low unemployment, job growth and GDP growth.

Jamie Dimon, quoted above, for one, is not so certain the result of the FED's actions (along with the administration's policies and Congress's legislations) will have rosy results. Bloomberg's survey of economists puts the odds of a recession at 60% (source: Bloomberg economic forecasts 10/17/22) up from 50% just a week before.

The recent economic data leads economists to believe the FED will increase the overnight rate by 75 basis points at each of their final two 2022 meetings. That would be their fourth, and fifth 75 basis point hikes in less than a year taking the federal funds rate to a range of 4.5% and 4.75% up from 0.00%-0.25% at the start of the year (source: Bloomberg 10/13/22). Just back in June the consensus was that rates wouldn't top 3.25% by November (source: Wall Street Journal 10/10/22).

The likelihood seems high given Chairman of the Federal Reserve, Powell's recent comments that reducing inflation is the primary objective. He stated last month that "There is a record of failed attempts to get inflation under control" and in raising rates to accomplish that objective he stated, "I wish there was a painless way to do that. There isn't" (source: Wall Street Journal 10/8/22).

The sequence of more immediate and larger interest rate increases, referred to as "frontloading", is the FED's current policy as stated by Powell and reiterated by Bullard, the President of the Federal Reserve Bank of St. Louis: "You need to get to where you need to be and then after that you can react to the data" (source: Bloomberg 10/15/22).

This frontloading strategy to fight inflation results in the Fed's 2023 current median estimate of just a 25 basis point hike in 2023. However, the Fed appears to favor erring on the side of higher rates sooner to hobble inflation.

(Continued on page 3)

Yields* on 09/30/2022	**Yield***
CAM Broad Market (corporate core plus) Strategy (7.1 year maturity; 5.8 duration)	**6.63%**
CAM Investment Grade (100% corporate bonds) Strategy (7.1 year maturity; 6.1 duration)	**5.55%**
CAM High-Yield Strategy (only BA & B rated purchased) (6.9 year maturity; 5.2 duration)	**9.04%**
CAM Short Duration Strategy (3.9 year maturity; 3.3 duration; 50% IG & 50% HY)	**7.44%**
CAM Short Duration Investment Grade Strategy (3.3 year maturity; 3.0 duration)	**5.12%**
U.S. Treasury** (10 year maturity)	**3.83%**
U.S. Treasury** (5 year maturity)	**4.09%**
U.S. Treasury** (2 year maturity)	**4.28%**

* The lower of yield to maturity or yield to worst call date ** Source: Bloomberg

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CAM's Key Strategic Elements

- Bottom-up credit analysis determines value and risk.
- Primary objective is preservation of capital.
- Larger, more liquid issues preferred.
- Target is always intermediate maturity.
- No interest rate forecasting.
- <u>All</u> clients benefit from institutional trading platform and multi-firm competitive bids and offers.

CAM returns are after CAM's average management fee & all transaction costs but before any broker, custody or consulting fees. **The indices are unmanaged and do not take into account fees, expenses, and transaction costs.**	**Total Return (%)**	**Annualized Returns (%)**			
	3Q '22	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	-3.29	-16.40	-2.77	0.20	1.57
CAM High Yield "Upper Tier" Strategy—Net only purchase BB and B; no purchases of CCC & lower	-1.38	-16.70	-1.87	0.76	1.76
Bloomberg US Corporate High Yield Index	-0.64	-14.13	-0.45	1.57	3.94
CAM Investment Grade Strategy—Net 100% corporate bonds	-4.12	-16.23	-3.20	-0.03	1.46
Bloomberg US Corporate Index	-5.06	-18.53	-3.65	-0.03	1.70
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	-0.71	-9.93	-0.27	1.17	1.42
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	-2.01	-9.28	-1.24	0.40	1.15

Relative Performance Review 09/30/2022

CAM's **Investment Grade Strategy ("IG")** produced a gross total return of -4.07% in the quarter ended September 30, 2022, compared to -5.06% for the Bloomberg U.S. Corporate Index. CAM always positions a majority of the portfolio within intermediate maturities of 5-10 years. Longer dated securities (10+ years) returned -9.05% for the period, dramatically underperforming the broader index. CAM's zero weighting in this duration bucket produced a +112 basis point contribution to excess return. The YTD return for the CAM IG strategy was -15.82% compared to the Index return of -18.72%. Over this period longer-dated securities returned -30.31%, widely underperforming the broader index. CAM's zero weight within that duration bucket produced a 399 basis point contribution to excess return.

The **High Yield Strategy** (**"HY"**) delivered a gross total return of -1.30% in Q3 while the Bloomberg US Corporate High Yield Index returned -0.64%. The modified duration of CAM's portfolio was 5.2 while that of the index was 4.1. CAM's longer duration is a function of not owning CAA-rated and below securities which tend to have shorter call periods than higher quality companies. The allocation effect of CAM's maturity profile served as a -70 basis point impact to CAM's portfolio relative to the index during the quarter. The HY YTD return was -16.88% while the Bloomberg US Corporate High Yield Index returned -14.74%. In this period, the allocation effect of CAM's maturity profile was a -296 basis point contribution to excess return.

Our **Broad Market Strategy ("BM")** – a 67%-33% blend of IG-HY bonds – produced a gross total return of -3.22% for the quarter compared to -3.60% for the Bloomberg blended Index. Our BM strategy invests in intermediate maturities between 5-10 years. The allocation effect of not investing in longer dated maturities (10+ years) was a +103 basis point contribution to excess return. The YTD return for the CAM Broad Market strategy was -16.18% compared to blended Index return -17.38%. For this period, the allocation effect of not investing in longer dated maturities was a +300 basis point contribution to excess return.

The CAM **Short Duration Strategy** ("**SD**") blends equal weights of IG and HY bonds with a target duration of 3 years. The strategy's gross total return for the quarter was -0.65% while the Index, a similar blend of the intermediate components of Bloomberg IG and HY corporates, returned -1.25%. Overall, our selection and positioning within the Consumer Cyclical Services, Automotive and Airlines industry groups provided a 15, 13, and 10 basis point contribution to excess return, respectively. The YTD gross total return was -9.60% compared to the blended Index return of -10.77%. CAM's duration profile is very similar to the blended index, but with underweights to the 1-3 year and 5+ year portions of the Index. The net allocation effect of our duration profile was a +56 basis point contribution to excess return

The **Short Duration Investment Grade Strategy** ("**SD-IG**") delivered a gross total return of -1.95% for Q3 while the Bloomberg U.S. Corporate 1-5 Index returned -1.94%. CAM's selection and weighting within the Airlines and Banking industry groups each provided a +5 basis point contribution to excess return, respectively. Over the YTD period, SD-IG underperformed the Index, by delivering -8.34% gross total return versus an Index return of -7.43%. Given the move in interest rates, longer duration credit underperformed during the period, and CAM's positioning within the 3-5 and 5-7 year duration buckets produced a combined -46 basis point contribution to excess return versus the index.

Bloomberg Bond Indices Returns vs. CAM Gross (annualized %)

Periods ended 09/30/2022	10-yrs	20-yrs
U.S. Aggregate	0.89	3.08
U.S. Corporate	1.70	4.10
CAM Investment Grade Strategy	1.70	4.12

Better Asset Allocation Might Result from More Exacting Analysis

The chart to the right shows that BA and B rated bonds have outperformed the Bloomberg US Aggregate Index for all periods shown. Interestingly, the "Agg's" 5-year annualized return has even turned slightly negative as a function of 2022's rising rate environment. Even inclusive of the annualized double digit S&P 500 returns over the past 10-years, the BA and B rated subsectors modestly underperformed the S&P 500 for the 20-year period. Notably, they have done so with about half the volatility of that Index (Ibbotson). These points in aggregate suggest that better credit quality high yield bonds deserve consideration as a core holding in an investor's portfolio allocation over a complete market cycle.

The chart also indicates that CAA rated securities outperformed B rated and BA rated bonds for all periods. However, not shown in the table is the pronounced volatility that has characterized the CAA subsector. For example, during 2008, when the High Yield Index was down 26%, CAA rated bonds were down 44%, and during 2009, the Index was up 58% while CAA bonds were up 91%. In each calendar year since 1997, CAA rated bonds ranked either best or worst in Credit Sights Annual Excess Return Rankings for US corporate credit tiers, a trend that was finally upset in 2019, although it returned in 2020 and 2021.

Total Return of High-Yield Bonds by Credit Quality
(periods ended 09/30/2022) Source: Credit Suisse First Boston
(annualized %)

High-Yield Bond Sectors	5-years	10-years	20-years
BA-rated bonds	1.82	3.93	6.73
B-rated bonds	1.56	3.54	6.49
CAA-rated bonds	2.26	4.55	8.39
CA & D-rated bonds	-11.72	-9.17	-2.32
Performance of Other Asset Classes (periods ended 09/30/2022) Source: Bloomberg & Lipper			
S & P 500 Stocks	9.24	11.70	9.81
Bloomberg U.S. Aggregate	-0.27	0.89	3.08

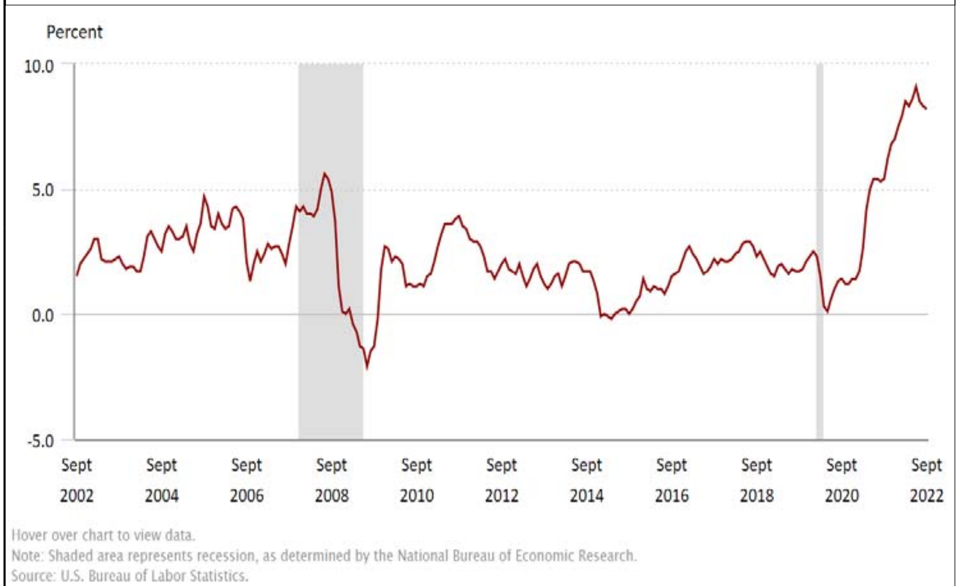
Yield Spreads Over U.S. Treasuries:

The September 30 spread levels (shown at the right) enhance the value of corporate bonds versus U.S. Treasuries. As of 9/30/2022 spreads widened for credit quality of all stripes reflecting investors' uncertainty about growth and inflation. The 10-year U.S. Treasury ended Q3 2022 at 3.83% compared to 3.01% at Q2 2022. The 10-year yield has been rising since the low point of 0.52% on August 4, 2020.

Widening spreads and higher Treasury yields combine to provide a more compelling outlook for corporate bonds than has existed since the spring of 2019.

Credit Rating	20-Year Average Spread	09/30/22	12/31/21	12/31/20	12/31/19	12/31/18	Tightest This Decade
A	1.20%	1.35%	0.74%	0.73%	0.70%	1.18%	0.63%
BAA	1.87%	1.92%	1.13%	1.21%	1.20%	1.97%	1.00%
BA	3.67%	3.54%	1.94%	2.64%	1.82%	3.54%	1.82%
B	5.09%	6.19%	3.13%	3.79%	3.24%	5.31%	2.94%
CAA	8.95%	12.21%	5.96%	7.15%	9.20%	9.89%	4.91%

12-month percentage change in the U.S. consumer price index



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Bullard continued, "But there is a lot of risk also that inflation goes still higher and then we have to react to that" (source: ibid).

These comments portray the Federal Reserve Chairman and members as zealous in what they see as their shared priority, lowering inflation back to the FED's target level of 2%. So, jobs and GDP growth are expendable in their proclaimed war on inflation.

Forecasts look for job growth to stall in 2023 and 2024, while GDP growth is expected to fall from 5.9% in 2021 to 1.7% in 2022, 0.5% in 2023 and 1.4% in 2024 (source: Bloomberg economic forecasts 10/17/22).

The forecasted slowdown in economic growth and possible recession is manifested in the bond markets by the recently inverted Treasury yield curve (see chart on page 1). The consensus forecast expects the 10-year Treasury to decline to 3.44% in 2023 and to 3.18% in 2024 (source: Bloomberg economic forecasts 10/17/22). Is it forecasting a rally?

In conjunction with the 10-year Treasury yield trend, inflation (annual change in CPI) is expected to fall to 4.0% in 2023 and further to 2.5% in 2024 (source: ibid). This would be a sharp reversal from the quick rise to over 8% (see chart above). So the outlook for the bond markets over the next two years seems quite improved.

However many investors' attention is focused on the current situation with the most recent report for September had CPI at 8.2%. CPI has remained above 8% for seven straight months. Showing how broad based inflation has grown, core CPI, which excludes food and energy reached 6.6% in September. This is the highest core CPI has been since 1982 (source: Bloomberg News 10/13/22). So the broadening base of inflation may lengthen the time for the economy to react with lower inflation to the FED rate increases. Does the delayed reaction to rate increases lead the FED to further increases causing it to overshoot its objective, which leads us into a recession?

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Footnotes and disclosure

Cincinnati Asset Management, Inc., ("CAM") an independent privately held corporation established in 1989, is registered with the United States Securities and Exchange Commission as an investment advisor. The CAM High Yield, Investment Grade, Broad Market, Short Duration, and Short Duration-Investment Grade composites consist of all discretionary portfolios under management, including all securities and cash held in the portfolios, and have been appropriately weighted for the size of the account. All accounts are included after they are substantially invested.

Returns are calculated monthly in U.S. dollars and include reinvestment of dividends and interest. Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Past performance is no guarantee of future results.

When compared to indices' performance, CAM results are after deduction of all transaction costs and CAM advisory fees. CAM advisory fees used are the composite averages. Accounts managed through brokerage firm programs usually will include additional fees. "Net of fees" herein refers only to CAM's management fee. Returns audited annually. Most recent audit available upon request. S&P 500 averages are published quarterly in Barron's as supplied by Lipper Analytics. The indices and information shown for comparative purposes are based on or derived from information generally available to the public from sources believed to be reliable. No representation is made to its accuracy or completeness.

High yield bonds may not be suitable investments for all individuals. Before investing a thorough reading of all materials and consultation with an independent third party financial consultant may be appropriate. Fixed Income securities may be sensitive to changes in prevailing interest rates. When rates rise the value generally declines. For example, a bond's price drops as interest rates rise. For a depository institution, there is also risk that spread income will suffer because of a change in interest rates. The Indices are referred to for informational purposes only and the composition of the Index is different from the composition of the accounts included in the performance shown above. Index returns do not reflect the deduction of fees, trading costs or other expenses.

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While CPI has not yet changed course, signs of a slowdown are appearing. The housing market is one sector which is very sensitive to interest rate changes, given its heavy reliance on mortgages.

Existing home sales declined in August for the seventh straight month and are down 19.9% from last year (source: National Association of Realtors data, NY Post 9/21/22). Mortgage rates are now approaching a 20-year high of 7% (Mortgage Banker's Association reports a 30-year fixed rate of 6.81% 10/17/22). The rise from 3.16% over the past 12-months has lead to a decline in purchases.

The Mortgage Bankers Association reported October 7th a 68.7% 12-month decline in their composite index. Redfin reports the number of pending home sales is down 28% compared to last year (source: NY Post 10/17/22). Redfin also reported a "record high" 7.9% of listings reporting price drops for the four weeks ending 10/9/22. Higher rates directly impact housing demand resulting in mortgage payments 51% more expensive than a year ago (source: ibid).

Freddie Mac chief economist Sam Khater noted, "We continue to see a tale of two economies in the data. Strong job and wage growth are keeping consumers' balance sheets positive, while lingering inflation, recession fears and housing affordability are driving housing demand down precipitously" (source: NY Post 10/14/22).

The Federal Reserve Bank of New York's general business conditions index fell nearly 8 points to minus 9.1 in October data released 10/17/22 (source: Bloomberg News 10/17/22). A negative score indicates contraction. Also, the future business conditions index fell to minus 1.8, the second weakest level since 2009. This is the first of several regional FED factory surveys released this month.

Consumers are also slowing spending with September retail sales 12-month growth matching the inflation rate (source: MarketWatch 10/14/22). So there is no increase in the amount of items purchased.

Another sign of consumer weakness is the 2nd quarter credit card debt. The annualized increase was its sharpest in over 20-years, rising to $890 billion, well above 2021 high of $860 billion at year end, usually the time of year with highest credit card debt balances. Are consumers tapped out?

Jamie Dimon, JP Morgan Chase CEO warns that "the specter of a full blown crisis where people lose their jobs in an economic downturn, and can no longer pay for necessities remains" (source: MarketWatch 10/16/22).

Sharpe Ratios (risk & reward relative value) Inception-Q3 2022

CAM Investment Grade Strategy 0.34
Bloomberg U.S. Corp Bonds 0.30

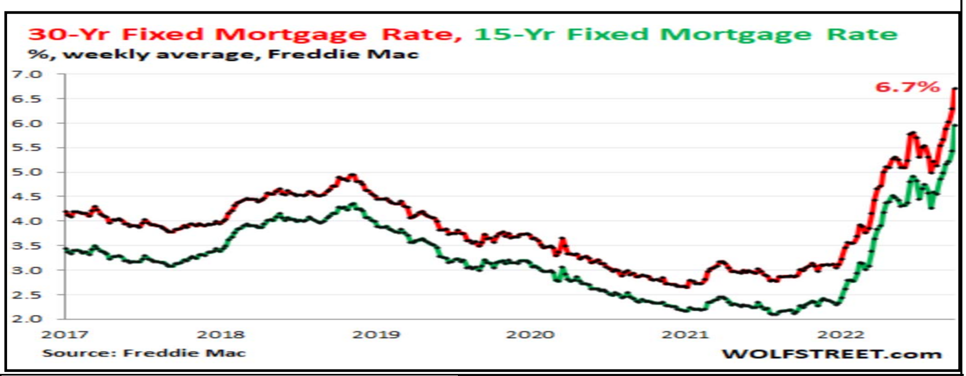
CAM High Yield Strategy 0.45
Bloomberg High Yield Corp Bonds 0.44

CAM Short Duration 0.41
Bloomberg Weighted Benchmark
(1/2 Interm. HY & 1/2 U.S. Corporate 1-5) 0.48

CAM Short Duration IG Strategy 0.80
Bloomberg U.S. Corporate 1-5 Yr 0.79

CAM Broad Market Strategy 0.53
Bloomberg Weighted Benchmark
(2/3 Corporate and 1/3 High Yield) 0.55

An important objective for all Cincinnati Asset Management investment strategies is to deliver superior risk-weighted returns. A quantitative indication of our success is the Sharpe Ratio that calculates total return per unit of risk. The data on the left indicates we have largely been successful. Sharpe Ratios of the Investment Grade and High Yield Strategies exceeded their respective benchmarks by approximately 13% and 2%, respectively. The Short Duration Investment Grade and Broad Market strategies approximated their benchmarks. The Short Duration Strategy's Sharpe Ratio trailed the benchmark primarily due to total return underperformance in the 5-year and older periods.



Rating	BA	B	CAA
Avg Spread	363	521	947
Std. Dev.	167	224	423
09/30/2022	**354**	**619**	**1221**
Lowest Spread	151	228	378

Spreads to Treasuries by Credit Rating show significantly lower risk of BA and B rated bonds. Source: Bloomberg, Barclays Research (12/31/99 to 09/30/22)