

## Executive Summary

Following the May rebound in global bonds, fixed income assets suffered another agonizing month in June amid surging interest rates and unrelenting inflationary pressures. Bonds continued their worst start to a calendar year in decades as the asset class faces severe headwinds from the global coordination of monetary policy tightening. The Bloomberg Barclays Global Aggregate Bond Index posted a return of -3.2% for the month further magnifying the index's largest drawdown on record – now -17.9% since January 2021.

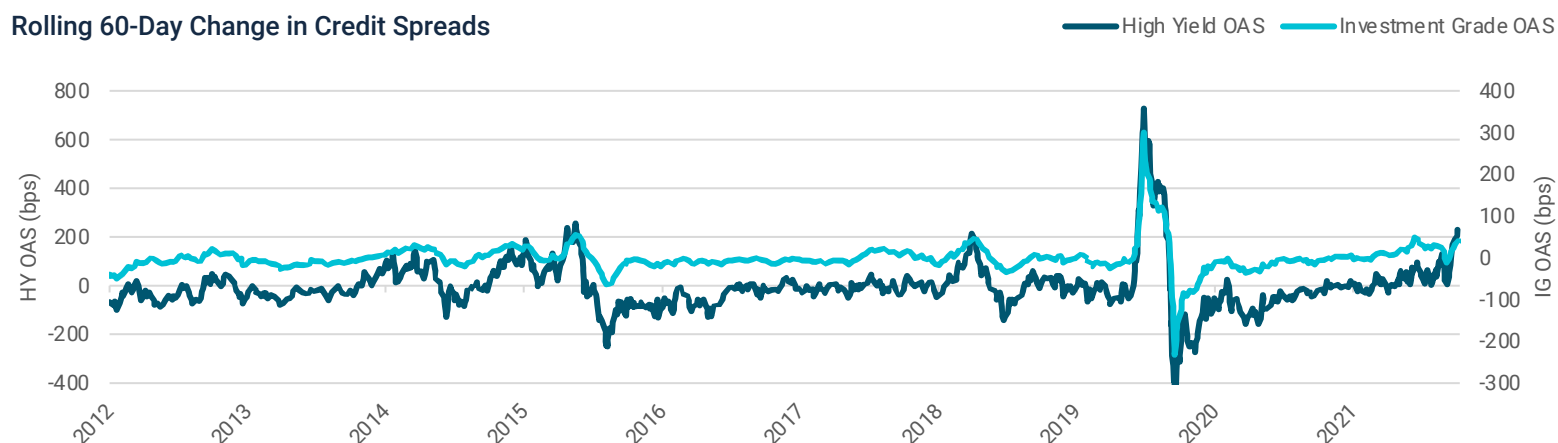
US aggregate bonds have fared better in 2022 relative to global fixed income although the Bloomberg Barclays US Aggregate Bond Index has returned -10.3% on a year-to-date basis. Furthermore, US aggregate bonds suffered an unprecedented first half of 2022 as the index confronts the worst six-month start to a calendar year in the historical record.

The higher-than-expected CPI print released in early June sent shockwaves through the fixed income landscape while yields moved higher amidst investors anticipating the Fed's response. Subsequently, the FOMC announced a 75 bps hike to the federal funds target rate at the intra-month meeting, marking the largest policy rate increase since 1994. The FOMC's dot plot highlighted the committee's expectation for increases in future policy rates as the 2022 and 2023 median fed funds rates are projected to be 3.4% and 3.8%, respectively. As markets look ahead to the next FOMC meeting in July, investors are anticipating a 50-75 bps rate hike while futures markets price in a 100% probability of another 50 bps increase at the September meeting. Consequently, potential recessionary concerns have emanated from Wall Street as hawkish measures from central banks around the globe have increased the probability of an economic contraction on the horizon.

Markets are signaling the expectation of disinflationary trends over the longer term as measured by the changes in inflation breakevens. After surging in early June amid the CPI release, the 5-year breakeven inflation rate reversed course falling 54 bps to close the month. The 10-year breakeven followed a similar path as the Fed's historic rate hike signaled to the markets the central bank is committed to tamping down inflation to the 2% target level.

Credit spreads swelled over the month as rising bond volatility has driven fixed income investors to demand higher risk premiums for purchasing corporate credit. The chart below highlights rolling 60-day changes in both investment grade and high yield credit spreads and the upward trend is revealing. Although the recent change in investment grade spreads has yet to surpass the 1Q move, the change in high yield spreads is the largest such move since the onset of the pandemic. Amid these spikes, bond investors remain cautionary while spreads could further rise in the face of a heightened probability of a recession. High yield spreads remain slightly above the 20-year average of 463 bps and deterioration in corporate credit conditions would be expected to exacerbate the spread widening.

## Rolling 60-Day Change in Credit Spreads



Source: FRED. Rolling 60-day change in credit spreads for the investment grade option-adjusted spread and the high yield option adjusted spread, for the period July 2012 to Jun 2022.

Index Total Returns (%)	1 Mo.	3 Mo.	1 Yr.	3 Yr.
BBg Barc Global Aggregate	-3.21	-8.26	-15.19	-3.20
BBg Barc Global Aggregate ex-US	-4.50	-11.01	-18.72	-5.04
BBg Barc US Aggregate	-1.57	-4.69	-10.25	-0.93
BBg Barc US Intermediate Aggregate	-1.27	-2.93	-7.88	-0.59
S&P Global Dev. Sov. ex-US Bond Index	-1.60	-5.24	-9.54	-2.98
S&P Eurozone Dev. Sovereign Bond	-4.04	-12.37	-22.16	-5.99
S&P Pan-Europe Dev. Sovereign Bond	-4.22	-12.69	-22.39	-5.75
ICE BofAML Emerging Markets Sov. Bond	-2.62	-6.59	-9.09	-0.05
S&P U.S. Current 2-Year Tsy Bond Index	-0.59	-0.53	-3.46	0.11
S&P U.S. Current 10-Year Tsy Bond Index	-1.03	-5.19	-11.08	-1.49
S&P U.S. Current 30-Year Tsy Bond Index	-1.62	-13.69	-19.66	-3.42
BBg Barc US Floating Rate Notes (<5 Yr)	-0.33	-0.30	-0.44	0.95
S&P US Treasury TIPS	-2.84	-5.52	-4.30	3.17
BBg Barc Municipal Bond Index	-1.64	-2.94	-8.54	-0.17
BBg Barc Global Aggregate - Corporate	-3.63	-8.72	-16.49	-2.28
BBg Barc US Investment Grade Corporate	-2.80	-7.26	-14.14	-0.98
BBg Barc US Corporate (AA)	-2.52	-7.32	-14.12	-1.85
BBg Barc US Corporate (BBB)	-2.64	-6.98	-13.82	-1.03
BBg Barc US Corporate High Yield	-6.73	-9.83	-12.77	0.21
S&P/LSTA Leveraged Loan	-2.76	-5.30	-4.20	1.40
BBg Barc Global Agg Securitized - US MBS	-1.60	-4.01	-9.00	-1.44
BBg Barc Global Agg Securitized - US ABS	-0.46	-0.91	-4.26	0.51

Key Rates (%/ bps)	Current	1 Mo. Change	3 Mo. Change	1 Yr. Change	3 Yr. Change
US 3 Month	1.64	+59	+113	+159	-48
US 2 Year	2.93	+39	+64	+268	+120
US 5 Year	3.00	+19	+58	+212	+125
US 10 Year	2.98	+13	+65	+153	+98
US 30 Year	3.12	+7	+67	+106	+59
1 Month USD LIBOR	1.79	+67	+133	+169	-61
3 Month USD LIBOR	2.29	+67	+132	+214	-3
6 Month USD LIBOR	2.94	+83	+147	+278	+73
12 Month USD LIBOR	3.62	+88	+152	+337	+144

Source: FactSet for all index and market data, shown in USD as of June 30, 2022.

# Notes & Disclosures

## Index Returns – all shown in US dollars

All returns shown trailing 6/30/2022 for the period indicated. "YTD" refers to the total return as of prior-year end, while the other returns are annualized. 3-month and annualized returns are shown for:

- The Barclay's US Aggregate Index, a broad-based unmanaged bond index that is generally considered to be representative of the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market.
- The ICE BofAML Emerging Markets Sovereign Bond Index is a subset of The BofA Merrill Lynch World Sovereign Bond Index excluding all securities with a country of risk that is a member of the FX G10, all Western European countries, and territories of the U.S. and Western European countries. The FX G10 includes all Euro members, the U.S., Japan, the U.K., Canada, Australia, New Zealand, Switzerland, Norway, and Sweden.
- The Bloomberg Barclays Global Aggregate Index, which measures global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
- The S&P Global Developed Sovereign Bond index includes local-currency denominated debt publicly issued by governments in their domestic markets.
- S&P Eurozone Developed Sovereign Bond - seeks to measure the performance of Eurozone government bonds.
- The S&P Pan-Europe Developed Sovereign Bond Index is a comprehensive, market-value-weighted index designed to track the performance of local currency-denominated securities publicly issued by Denmark, Norway, Sweden, Switzerland, the U.K. and developed countries in the Eurozone for their domestic markets.
- ICE BofAML Emerging Markets Sovereign Bond - tracks the performance of US dollar (USD) and Euro denominated emerging markets non-sovereign debt publicly issued within the major domestic and Eurobond markets.
- The Bloomberg Barclay's US Corporate Bond Index (AA), which measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- The Bloomberg Barclay's US Corporate High Yield Index, which covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- Bloomberg Barclay's Global Aggregate Securitized- US Mortgage-Backed Securities, which is a component of the Bloomberg Barclay's US Aggregate Index and measures investment grade mortgage backed pass-through securities of GNMA, FNMA, and FHLMC.
- Bloomberg Barclay's Global Aggregate Securitized- US Asset-Backed Securities, which is a component of the Bloomberg Barclay's US Aggregate Index and includes the pass-throughs, bullets, and controlled amortization structures of only the senior class of ABS issues.
- The Bloomberg Barclay's US Floating Rate Notes (<5 Yr) Index, measures the performance of U.S dollar-dominated, investment grade floating rate notes with maturities less than 5 years.
- The Bloomberg Barclay's Municipal Bond Index, which measures investment grade, tax-exempt bonds with a maturity of at least one year.
- The S&P/ LSTA Leveraged Loan Index is designed to reflect the performance of the largest facilities in the leveraged loan market.

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance to certain asset classes. Index performance used throughout is intended to illustrate historical market trends and performance. Indexes are managed and do not incur investment management fees. An investor is unable to invest in an index. Their performance does not reflect the expenses associated with the management of an actual portfolio. No strategy assures success or protects against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk including loss of principal. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market. Past performance is no guarantee of future results.

## Key Rates

Key Rates are shown for US Treasuries and London Interbank Offered Rate (LIBOR), the interest rate at which banks offer to lend funds (wholesale money) to one another in the international interbank market. LIBOR is a key benchmark rate that reflects how much it costs banks to borrow from each other. "Current" refers to the percentage rate as of 6/30/2018, while the rates of change are stated in basis points.

## Credit Spreads

Credit Spreads shown comprise the Option-Adjusted Spread of the indices indicated, versus the US 10-Year Treasury Yield. "Current" refers to the spread as of 6/30/2018, while the rates of change are stated in basis points.

## Key Indicators

Key Indicators correspond to various macro-economic and rate-related data points that we consider impactful to fixed income markets.

- 2s10s (bps)/ 10 Yr vs 2 Yr Treasury Spread, which measures the difference between yields on 10-Year Treasury Constant Maturity Securities and 2-Year Treasury Constant Maturity Securities.
- West Texas Intermediate, which is an oil benchmark and the underlying asset in the New York Mercantile Exchange's oil futures contract.
- Core Consumer Price Index, which measures the consumer price index excluding food and energy prices. Shown as of the prior month-end.
- Breakeven Inflation: 5 Yr %/ bps, which uses a moving 30-day average of the 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities to derive expected inflation.
- Breakeven Inflation: 10 Yr %/ bps, which uses a moving 30-day average of the 10-Year Treasury Constant Maturity Securities and 10-Year Treasury Inflation-Indexed Constant Maturity Securities to derive expected inflation.

## General Disclosure

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