



Monthly Market Update Webinar Series | March 9, 2022

ALM First Market Update

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Speaker



Jason Haley
Chief Investment Officer



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Agenda

- Economic themes
- Market themes
 - Review February performance
 - A brief look at current spreads relative to historical averages

Economic Themes

- **Uncertainty abound**
 - The conflict in Ukraine has introduced more uncertainty to already-volatile markets ahead of the Fed's likely policy normalization efforts
 - WTI oil futures at the highest price since 2008, further adding to inflation pressures
 - Treasury market implied volatility approaching March 2020 levels and well above any other post-crisis period
 - S&P 500 -8.9% return YTD through March 4; all major fixed income sector returns negative in 2022
 - Broad market volatility likely to remain elevated until there is more clarity on the geopolitical and monetary policy fronts
- **Fed still on track for March 16 liftoff; economy remains hot**
 - In testimony before Congress on March 2, Fed Chair Powell made it clear that the FOMC was still on track for a 3/16 rate hike with the labor market "extremely tight" and inflation well above the 2% target
 - Regarding the impact of the war in Ukraine/Europe, Powell said the near-term impact on the U.S. economy remains "highly uncertain"
 - Markets still priced for ~150 bps of rate hikes in 2022 and another 50 bps in 2023
 - Market currently pricing for a fed funds terminal rate of ~2% versus 2.5% from the last FOMC projections in December
 - February jobs report was stronger than expected
 - Non-farm payrolls +678k jobs (423k expected) and unemployment rate fell 20 bps to 3.8%
 - Only soft spot was average hourly earnings unchanged m/m versus +0.5% expected

Economic Data Still Surprising to the Upside

Citigroup Economic Surprise Index



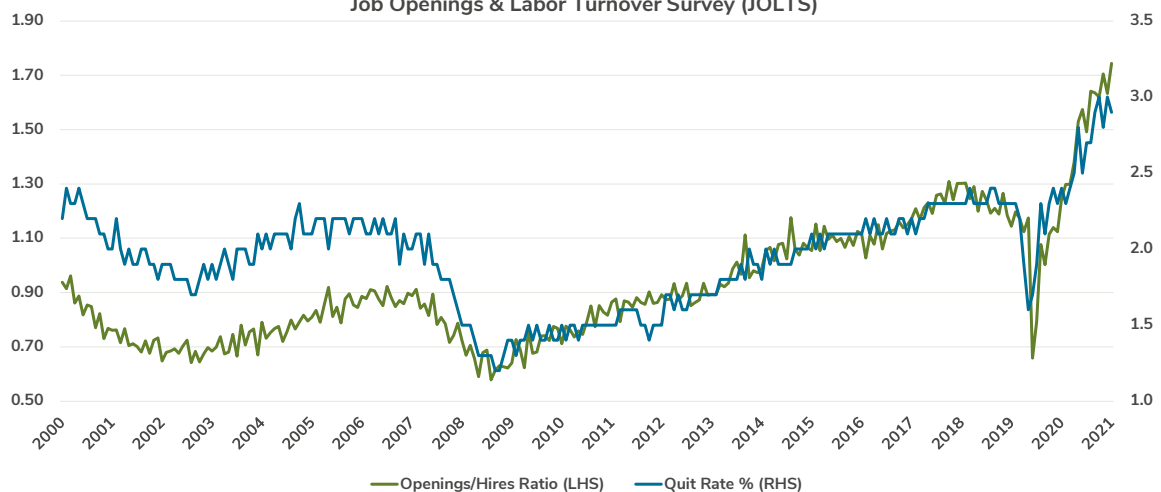
Source: Citigroup Global Markets; Bloomberg



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Labor Market Keeps Tightening...

Job Openings & Labor Turnover Survey (JOLTS)

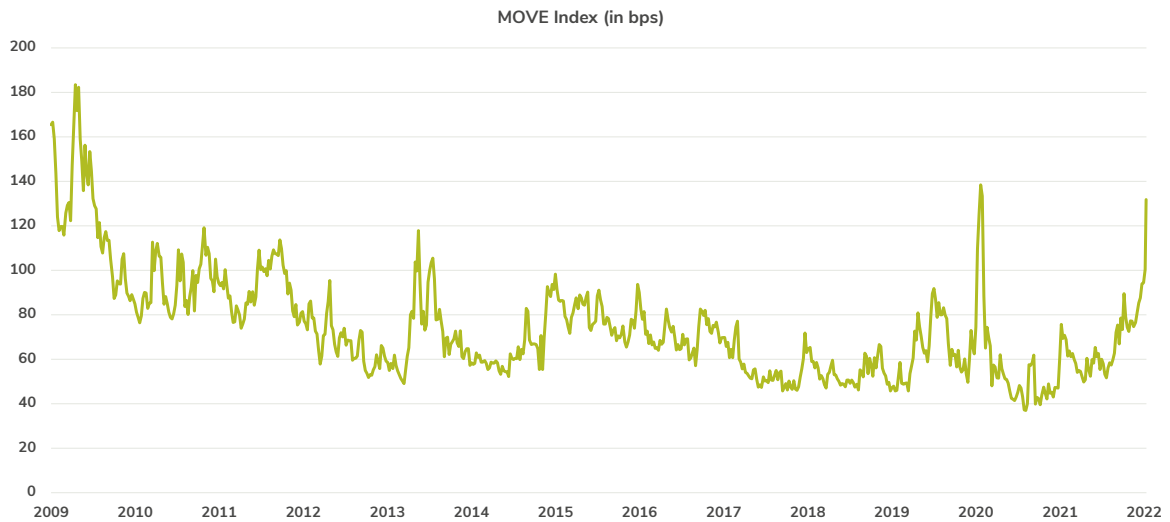


Source: BLS; ALM First

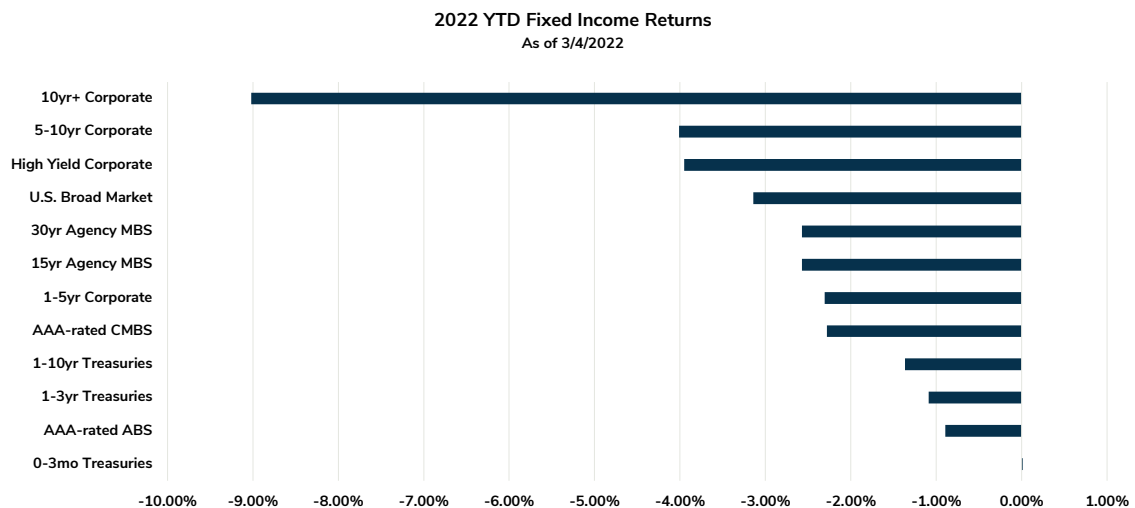


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Elevated Rate Volatility



Year-To-Date Fixed Income Performance



Market Themes

- **Treasury yields were higher and flatter since the end of January**
 - Rates have been whipsawed by inflation pressures and rising geopolitical tensions in Europe
 - 2yr/10yr spread now the flattest since March 2020
 - Elevated rate volatility has been negative for spread sectors to start the year
- **Fixed income had another rough month in February**
 - Higher rates, higher volatility, and wider spreads are a poor recipe for bond returns
 - Volatility could remain elevated until the market has more clarity on 1) Russia/Ukraine and 2) the Fed's intentions with regards to the path of the fed funds rate and balance sheet normalization
 - Expected returns are much improved looking forward
 - Spreads have widened across most sectors and are now closer to 5yr averages
 - Opportunities for liquidity providers in what are very biddable markets

Treasury Curve			
Tenor	3/4/2022 (%)	1/31/2022 (%)	Change (bps)
1-Month	0.12	0.03	0.09
3-Month	0.31	0.18	0.13
6-Month	0.63	0.46	0.17
1-Year	0.99	0.77	0.22
2-Year	1.48	1.18	0.30
3-Year	1.61	1.38	0.23
5-Year	1.64	1.61	0.03
10-Year	1.73	1.78	-0.05
20-Year	2.22	2.18	0.04
30-Year	2.16	2.11	0.05
Curves			
3mo-10yr	1.42	1.60	-0.18
2yr-5yr	0.16	0.43	-0.27
2yr-10yr	0.26	0.60	-0.34
2yr-30yr	0.68	0.93	-0.25
5yr-10yr	0.09	0.17	-0.07

Source: Bloomberg



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Sector Returns

	Sector Returns							
	February-22		Year To Date					Average
	TROR	Excess *	TROR	Excess *	2021	2020	2019	
Cash ¹	0.08	-	0.01	-	0.05	0.54	2.21	0.93
Treasury ²	-0.43	-0.02	-1.32	-0.04	-1.10	4.25	4.20	2.42
Agy Bullet & Callable ³	-0.49	-0.10	-1.36	-0.17	-0.86	3.35	3.78	2.07
15 Year MBS ⁴	-0.99	-0.66	-2.37	-1.10	-0.41	4.43	5.49	3.14
30 Year MBS ⁵	-1.16	-0.75	-2.77	-1.18	-1.24	4.09	6.98	3.22
US Taxable Muni	-1.43	-0.63	-4.13	-0.63	1.40	11.82	13.69	8.83
US ACMB ⁷	-0.81	-0.22	-2.52	-0.20	-1.85	9.02	7.42	4.75
IG Credit ⁸	-0.92	-0.49	-2.08	-0.73	-0.35	5.71	7.15	4.12
HY Credit ⁹	-0.33	0.02	-1.74	-0.73	6.00	3.68	10.09	6.56
S&P 500	-3.00	-	-8.02	-	28.68	18.39	31.48	26.05
KBW Bank Index	-0.39	-	1.84	-	38.34	-10.31	36.13	19.09

Sources:

- 1 ICE Treasury Bills 0-3 mo
- 2 ICE US Treasuries 1-5yr
- 3 ICE AAA US Agy 1-5yr
- 4 ICE BoA FNMA 15yr MBS
- 5 ICE BofA FNMA 30yr MBS

- 6 ICE US Taxable Municipal
- 7 Bloomberg/Barclays Agency CMBS
- 8 ICE US Corp 1-5yr
- 9 ICE US HY 1-5yr Constrained

* Excess vs. duration-matched Treasuries



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ALM First Model Portfolio Returns

ALM First Model Portfolios Total Return (%) Summary								
As of February 28, 2022	1-Month	3-Month	YTD	1-Year	3-Year Avg. Annual	5-Year Avg. Annual	Inception Avg. Annual	Inception Date
Core Spread Portfolio ¹	-0.54	-1.56	-1.46	-1.62	2.26	2.05	1.80	1/1/2011
ICE BofA 1-5yr Treasury & Agency Bullet Index	-0.43	-1.60	-1.32	-1.97	1.84	1.55	1.38	
Excess Return	-0.10	0.04	-0.13	0.35	0.42	0.50	0.42	
Enhanced Liquidity Portfolio ²	-0.13	-0.44	-0.40	-0.26	1.52	1.61	1.04	1/1/2011
50/50 blend of ICE BofA 6mo & 12mo T-Bill Indices	-0.08	-0.29	-0.24	-0.31	1.17	1.28	0.76	
Excess Return	-0.05	-0.15	-0.16	0.05	0.36	0.33	0.28	
IG Credit Portfolio ³	-0.76	-1.55	-1.66	-1.04	3.24	2.81	2.62	10/1/2011
ICE BofA 1-5yr Treasury & Agency Bullet Index	-0.43	-1.60	-1.32	-1.97	1.84	1.55	1.21	
Excess Return	-0.32	0.05	-0.34	0.93	1.40	1.25	1.41	

¹ Returns are shown net of a 0.10% model fee. ² Returns are shown net of a 0.05% model fee. ³ Returns are shown net of a 0.15% model fee.

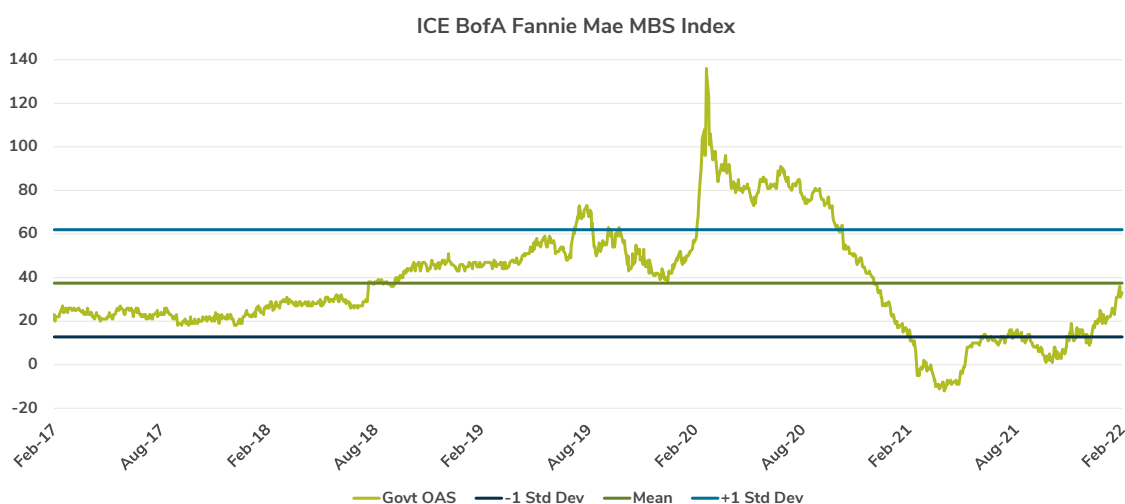
* Actual fees will vary. Please see Model Fee disclaimer.



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MBS Spreads...



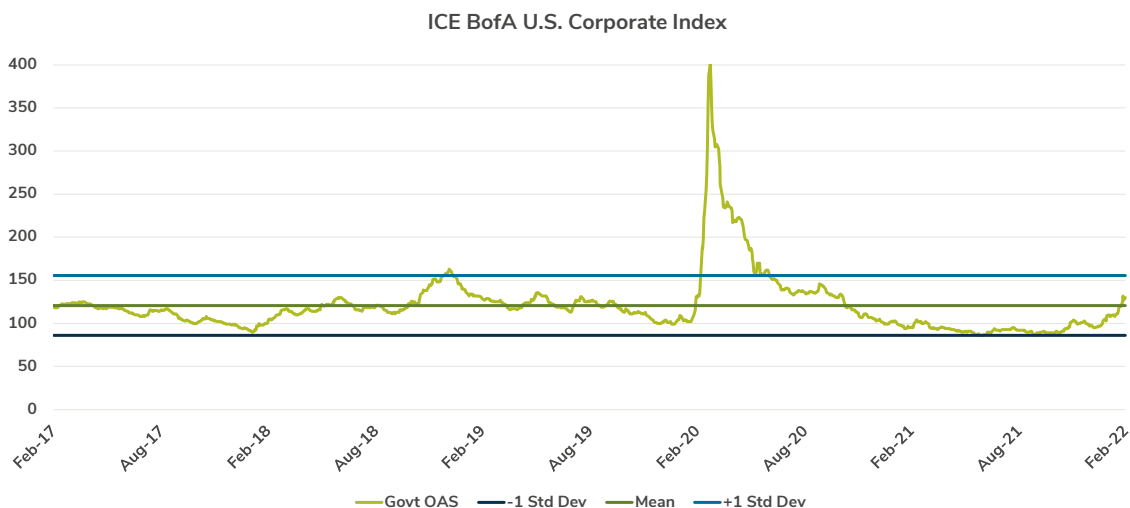
Source: ICE BofA; Bloomberg



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Corporate Bond Spreads...



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