

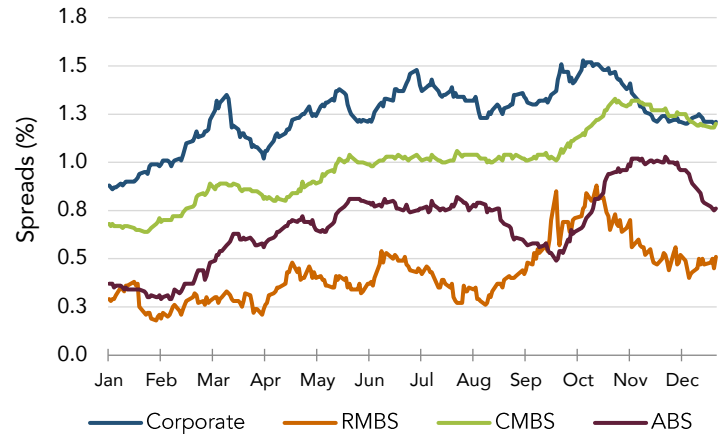


MARKET COMMENTARY

- As expected, the Federal Reserve increased its target rate by 50 basis points (bps) at the December meeting, a slight policy downshift after four consecutive increases of 75 bps. Accompanying commentary and projections from Fed officials warned market participants of higher rates for longer. US Treasury yields increased during the month.
- Retail sales and services indicated signs of cooling as higher borrowing costs trickle through the economy. The labor market continued to show resilience with only modest signs of softening, while CPI showed signs of deceleration.
- After substantial spread tightening in November, corporate credit markets were relatively flat in December. Market participants seemed at peace with sitting on their hands to close out the year, especially given the expectation of heavy issuance in early 2023. Spreads were generally sideways, and during the second half of the month, markets fell into their typical holiday season lull.
- RMBS markets were also sideways during December, closing out a strong second half of the fourth quarter due to lower interest rate volatility, cooler than expected inflation data and reassurances from the Fed regarding its continued expectation of no outright sales of Fed RMBS holdings.
- ABS was the star performer of the month. Following weakness in November, high quality ABS looked attractive and market participants began piling in. Increased demand along with quiet primary issuance caused spreads to tighten significantly across ABS subsectors.
- Higher rates and rate volatility have slowed transaction activity and new issuance in CMBS. CMBS spreads pushed tighter during the month, demonstrating their typical relationship of mimicking corporate credit spreads with a one-month lag.

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SPREADS TO TREASURIES



Source: Bloomberg

TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	4.34%	+0.02%
1 Year	4.69%	+0.00%
2 Year	4.43%	+0.12%
3 Year	4.22%	+0.18%
5 Year	4.00%	+0.27%
10 Year	3.88%	+0.27%
30 Year	3.96%	+0.23%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return MTD	Excess Return* MTD	YTM
Corporates	-0.44%	0.20%	5.42%
Financials	-0.10%	0.30%	5.58%
Industrials	-0.67%	0.07%	5.34%
Utilities	-0.22%	0.64%	5.39%
RMBS	-0.44%	0.02%	4.71%
CMBS	0.04%	0.41%	5.31%
ABS	0.66%	0.61%	5.14%
Agencies	-0.08%	0.00%	4.62%

*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries