Quarterly Investment Commentary

High Yield Bonds Quarterly Commentary

As we close the quarter ending Q3 2023, the High Yield Bonds strategy has delivered a 1.95% return, below the benchmark's 5.00% gain. While this may seem disappointing, our contrarian approach has been guided by a thorough understanding of market dynamics and a keen eye for value.

Market Overview

The quarter was marked by a continued shift in market sentiment, driven by the Federal Reserve's decision to slow the pace of interest rate hikes. This change in monetary policy has led to a modest improvement in credit spreads, as investors began to reassess the risk profile of high-yield bonds. Meanwhile, the global economy has shown signs of resilience, with key sectors such as technology and healthcare reporting strong earnings.

Credit Spreads

Several specific holdings have contributed to the portfolio's performance, including our long positions in Exxon Mobil Corp. and International Business Machines Corp. Our decision to increase our holdings in hybrid vehicle innovators such as Exxon Mobil Corp. reflected our conviction that this emerging industry would drive significant growth in the coming years. The strong Q2 earnings reported by IBM, coupled with elevated consumer demand, further bolstered our confidence in this high-quality issuer.

In addition, we made targeted adjustments to our portfolio in response to changing market conditions, opportunistically adding exposure to sectors poised for growth and reducing our exposure to areas experiencing heightened uncertainty.

Sector Performance

The quarter saw a significant rotation in sector performance, with technology and healthcare stocks driving the majority of high-yield index gains. Our portfolio's exposure to these sectors has been tailored to take advantage of this trend, with a focus on high-quality issuers and structurally sound debt securities.

Specific Holdings

Our analysis highlights the important role played by key sectors in the portfolio's performance. Technology, in particular, has been a key driver of returns, thanks to the strong earnings reported by industry leaders such as IBM. The healthcare sector, meanwhile, has continued to benefit from the trend towards value-oriented investing, as investors seek out high-quality debt securities with attractive yields.

Outlook

Looking ahead, we expect market conditions to remain highly volatile, with interest rates and credit spreads likely to continue their erratic dance. As an active manager, we remain focused on identifying opportunities to enhance returns while minimizing risk exposure. Our strategy will continue to emphasize high-quality issuers, structurally sound debt securities, and emerging industries with compelling growth prospects.

As we navigate these uncertainty-laden waters, our firm will remain steadfast in its commitment to generating returns above benchmark levels while preserving capital for our investors.

Together, we create financial solutions that lead the way to a prosperous future.

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Scott M. Morgan
President

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