Quarterly Investment Commentary

Market Overview:

As we reach the midpoint of the year, the government bond market has experienced a mix of volatility and stability. The recent quarter saw a slight decline in yields across the board, driven primarily by concerns over the global economy and impending central bank policy decisions. Despite this, the Bloomberg Barclays US Aggregate Bond Index has continued to grind out steady returns, buoyed by the robust performance of the US Treasury market. Within our Government Bonds strategy, we have remained committed to our disciplined approach, actively managing credit and duration exposure to capture the best risk-reward opportunities.

Economic Developments:

One of the key drivers of our portfolio's performance during the recent quarter was our overweight position in high-quality, short-duration bonds. As concerns over the global economy intensified, investors sought shelter in these safer assets, driving up prices and yields. Our holding in the 2-year US Treasury note, which has remained a core position in our portfolio, benefited greatly from this trend. We also took advantage of the decline in yields by adding to our position in the 10-year US Treasury note, which has provided a relatively stable source of income.

Interest Rate Changes:

The recent quarter saw the Federal Reserve pause on interest rate hikes, citing concerns over the slowing global economy. While this shift in rhetoric may have caught some off guard, we had anticipated a more cautious approach from the Fed given the fragile state of global growth. Our strategy's sensitivity to interest rates has been a key factor in its underperformance relative to the benchmark, as our shorter-duration bonds have struggled to keep pace with the longer-dated peers. However, we remain confident in our approach, as the benefits of our credit-focused approach will ultimately shine through in the long run.

Bond Performance:

From a sector perspective, our portfolio's exposure to Investment-Grade Corporates and Municipal Bonds has been a highlight. The recent quarter saw a surge in demand for these assets, driven by the search for yield in a low-rate environment. Our holdings in companies with strong credit profiles, such as Coca-Cola and Procter & Gamble, have performed particularly well, as investors have sought the relative safety of high-quality bonds. On the municipal side, our focus on tax-exempt bonds has allowed us to capture the benefits of the recent rally in municipal yields, which has compressed spreads and driven returns.

Outlook:

As we look ahead to the next quarter, we remain cautious on the global economy, but believe that the fundamentals of our Government Bonds strategy remain sound. We expect interest rates to remain low, providing a supportive environment for bonds. Our focus will continue to be on credit-focused investing, with an eye towards identifying opportunities in the corporate and municipal sectors. While there may be ups and downs in the market, we are confident that our disciplined approach will allow us to navigate the challenges and capitalise on the opportunities that arise.

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

Mickey Mouse

Scott M. Morgan
President

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