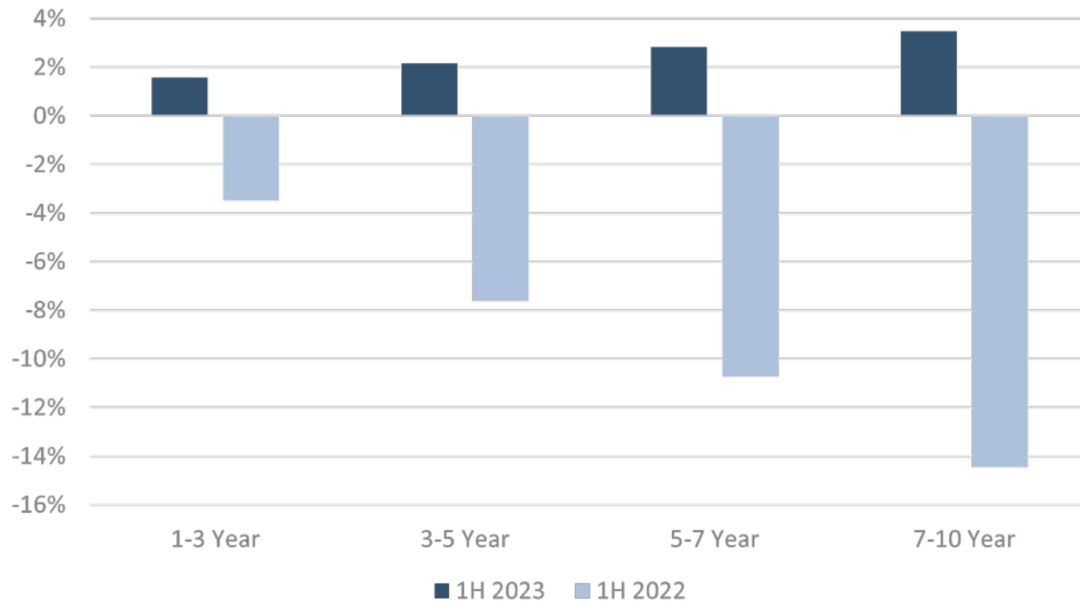
June 26, 2023

MARKET COMMENTARY

Fig. 1: US Investment Grade Corporate Bond Returns



Source: Bloomberg, Mill Creek.

It's been a rather boring first half of the year for fixed income investors. We're not complaining - this time last year, the taxable bond market was down a staggering -10% as inflation and Fed policy reached peak uncertainty. In 2023, interest rates barely moved apart from the short end of the Treasury curve. The benchmark 10-year Treasury yield currently sits at 3.75%, just -13 basis points below the level observed in January. Credit has also remained steady, with investment grade spreads bouncing between 130 and 150 basis points. As a result, fixed income returns have closely mirrored current yields in 2023. This has resulted in longer duration and lower-rated bonds outperforming other market segments. For instance, 1-3 year investment grade corporate bonds are up a modest 1.6% year to date while long-dated high yield securities have recorded a 4.4% return.

Looking forward, we anticipate a bumpier ride. The Fed is nearing the end of its hiking cycle, the Treasury curve has been inverted for 12 months, and the economy is slowing. It is reasonable to expect credit spreads to drift higher as these dynamics continue. Fortunately, the higher yield environment gives bondholders reasonable downside protection to cushion portfolios against market volatility, a considerably different scenario than in 2022.

QUICK LINKS

- May CPI: Something for Everyone, including the Fed
- Small-cap Stocks Surge as Investors Begin Buying Improved Outlook
- June Update: A Pause on the Horizon
- Concentration Conundrum

This week's contributor: Nora Pickens, CAIA

DISCLOSURES & IMPORTANT INFORMATION

Any views expressed above represent the opinions of Mill Creek Capital Advisers ("MCCA") and are not intended as a forecast or guarantee of future results. This information is for educational purposes only. It is not intended to provide, and should not be relied upon for, particular investment advice. This publication has been prepared by MCCA. The publication is provided for information purposes only. The information contained in this publication has been obtained from sources that MCCA believes to be reliable, but MCCA does not represent or warrant that it is accurate or complete. The views in this publication are those of MCCA and are subject to change, and MCCA has no obligation to update its opinions or the information in this publication. While MCCA has obtained information believed to be reliable, MCCA, nor any of their respective officers, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents.

© 2023 All rights reserved. Trademarks “Mill Creek,” “Mill Creek Capital” and “Mill Creek Capital Advisors” are the exclusive property of Mill Creek Capital Advisors, LLC, are registered in the U.S. Patent and Trademark Office, and may not be used without written permission.