EAGLE | Asset Management

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# BONDS HAVE HIT AN INFLECTION POINT

## So what's next?

"Bonds are back," says **James Camp**, CFA, Managing Director of Fixed Income and Strategic Income at Eagle Asset Management. "There are alternatives for income investors as the script has flipped" regarding the relationship between the yield of the 10-year Treasury note and the S&P 500 Index.

"Bonds' rightful place as a store of value, diversifier, and income-generator has been reestablished, and it's been reestablished in a very quick fashion," Camp says. "And despite the pain of 2022, mathematically speaking and practically speaking, the 'rip the bandage off' approach that the U.S. Federal Reserve and markets have taken is actually going to be productive."

### About James Camp, CFA

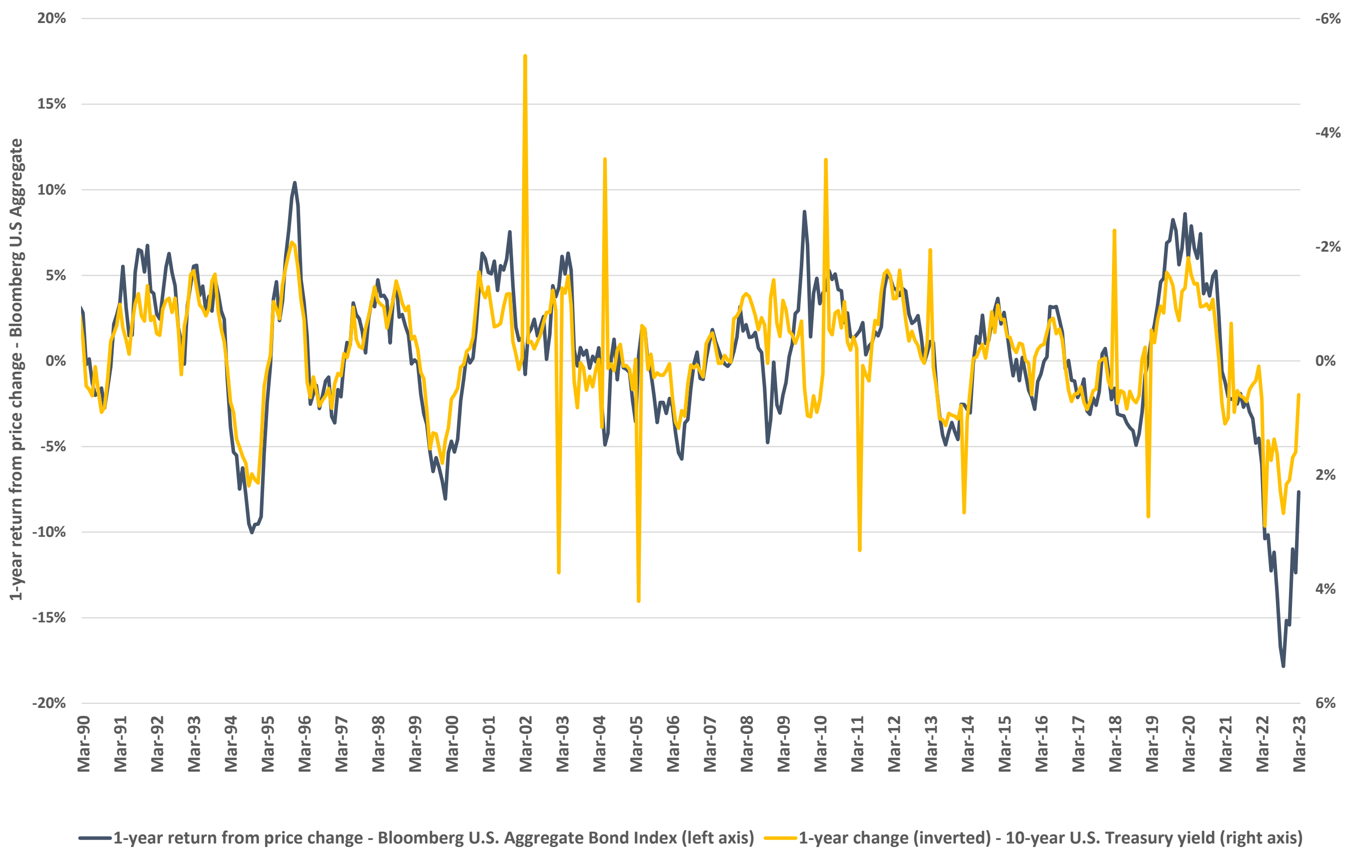
- 34 years of industry experience
- Joined Eagle Asset Management in 1997
- B.S., engineering science, Vanderbilt University, M.B.A., finance, Emory University
- Earned Chartered Financial Analyst designation in 1993

### What Camp says this means:

- The Fed can get inflation under control. While Camp doesn't expect inflation rates to go back to 2%, the Fed could begin relaxing tight monetary policy maybe early in 2024 if there is a recession.
- The Fed, however, is not backing off its 2% target for inflation rates. Getting there is a long way off. Consequently, Camp's team expects short rates to increase once more and stay elevated through 2023.
- The era of free money is over. Companies and investors alike should return capital to proper allocations. For companies, that means investing on research and development, capital expenditures, automation, and other productive innovations. For investors, it means paying attention to fundamentals and asset allocation. "The capital markets now look more normal," Camp says. "They look more balanced. And I believe capital allocation and economic wealth creation is served by a more normal macroeconomic, more normal fiscal, and more normal monetary environment over the course of the next handful of years."
- That said, there could be risks along the way. One is a tight labor market putting pressure on corporate margins and earnings. Another is the possibility that something lurks in the more opaque private debt and private equity markets that could be disruptive to the larger system going forward.
- Dollar-cost averaging is an evergreen idea. It becomes particularly important in moments of transition like this.
- Barbelling could provide a way to put money to work on the short end of the yield curve where cash yields are generous at the moment while locking up attractive intermediate and long-term opportunities.

Even with the recent upheaval in banking, Camp says, "our outlook still supports a material economic slowdown, compression of margins, a lower earnings growth rate for the S&P 500 Index, and a return to balanced portfolio investing, including fixed income."

## When yields fall, bond prices rise




Source: Bloomberg, Federal Reserve Economic Data (FRED), as of 4/4/23

This chart shows that the price of bonds rises when yields go down by charting the rolling 1-year price return from the Bloomberg U.S. Aggregate Bond Index against the inverted 1-year change in the 10-year Treasury yield.

## About Eagle Asset Management

Eagle Asset Management provides a broad array of fundamental equity and fixed-income strategies designed to meet the long-term goals of institutional and individual investors. Eagle's multiple independent investment teams have the autonomy to pursue investment decisions guided by their individual philosophies and strategies.

Risks associated with Fixed Income investing:

Many investors consider bonds to be "risk free" investment vehicles. Historically, bonds have indeed provided less volatility and less risk of loss of capital than has equity investing. However, there are many factors that may affect the risk and return profile of a fixed-income portfolio. The two most prominent factors are interest-rate movements and the creditworthiness of the bond issuer. Bonds issued by the U.S. government have significantly less risk of default than those issued by corporations and municipalities. However, the overall return on government bonds tends to be less than these other types of fixed-income securities. Investors should pay careful attention to the types of fixed-income securities that comprise their portfolio and remember that, as with all investments, there is the risk of the loss of capital.

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### Definitions

Dollar-cost averaging is an investment strategy in which in¬vestors divide the total amount to be invested across periodic purchases of a target asset in an effort to reduce the impact of volatility on the overall purchase. The purchases occur at regular intervals regardless of the asset's price.

A barbell investment strategy in fixed income typically entails investing half the portfolio in long-term bonds (generally those with maturities of 10 years or more) and the other half in short-term bonds (generally those with maturities of five years or less), with little or nothing in between. Barbell strategies can allow investors to benefit from current interest rates by investing in short-term bonds and also benefit from the higher yields of holding long-term bonds. The risks associated with using a barbell strategy include interest rate risk and inflation risk.

A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

### Indices

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 75% of the investable U.S. equity market.

The Bloomberg U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and investment-grade corporates.

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Indices are unmanaged and one cannot invest directly in the index.