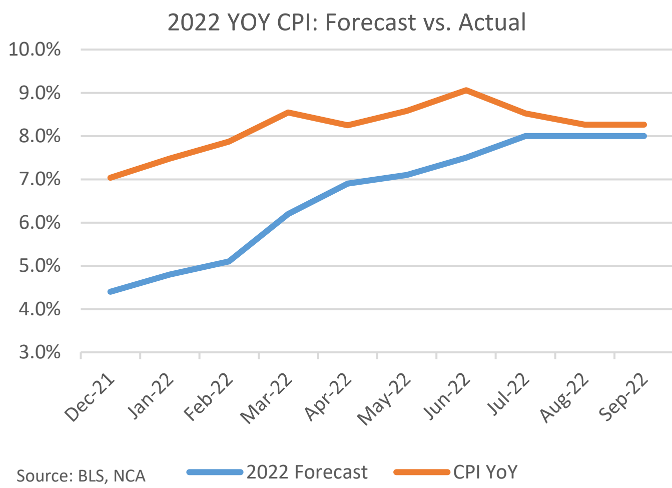
NEWPERSPECTIVES

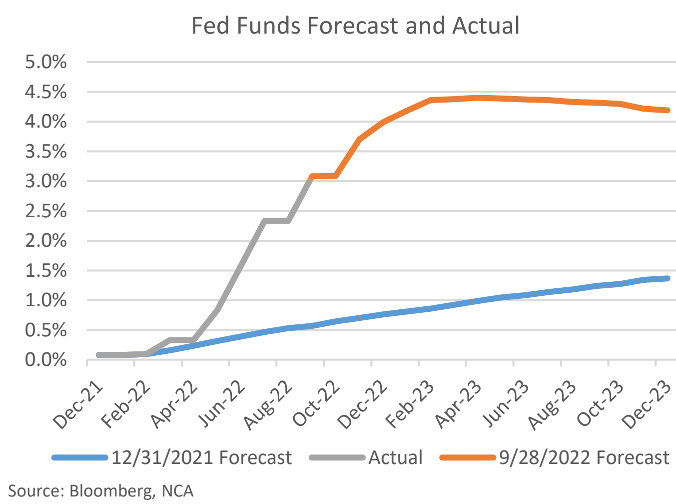
Commentary from New Century Advisors – October, 2022

Short Maturity Bonds: The Glass is More Than Half Full

While global capital markets have focused on decades-high inflation and a concerted effort by global central banks to arrest inflationary impulses, some investment opportunities have quietly emerged.

There is no question markets have been shocked by not only the persistence of inflation but also the reaction of the Fed and their forward guidance.





At the September meeting, the FOMC raised the upper bound of the Fed Funds rate to 3.25% and signaled via the Summary of Economic Projections ("Dots") they expect to take the Funds rate to 'restrictive' territory and hold it there.

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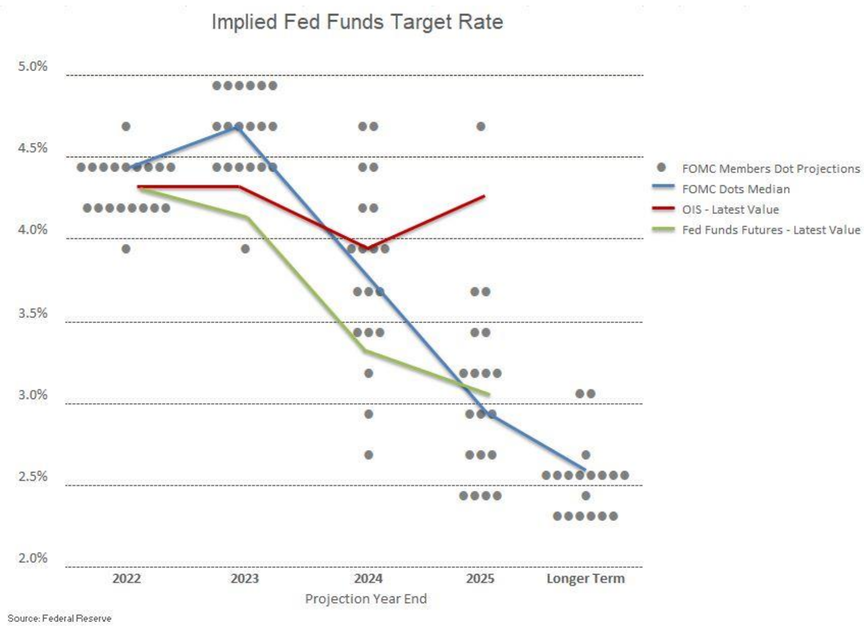
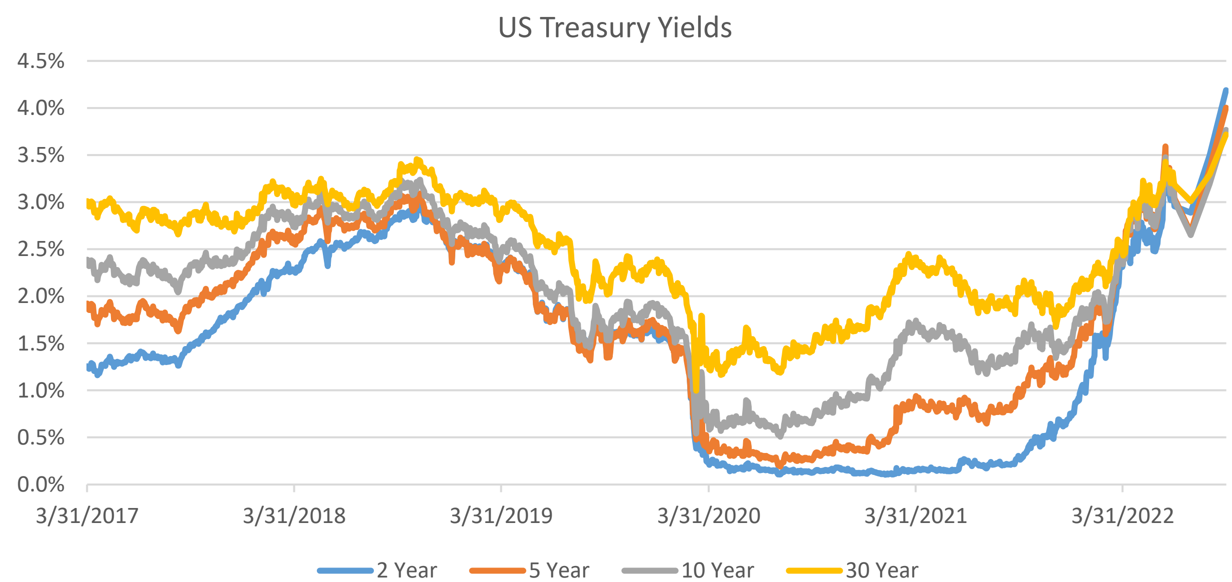


Most of the financial press focus has been on the capital market carnage of these moves, rising Treasury yields and falling bond and stock returns. However, there has been an upside of the Fed's aggressiveness. Yields have now risen to attractive levels relative to recent history.



Source: Bloomberg

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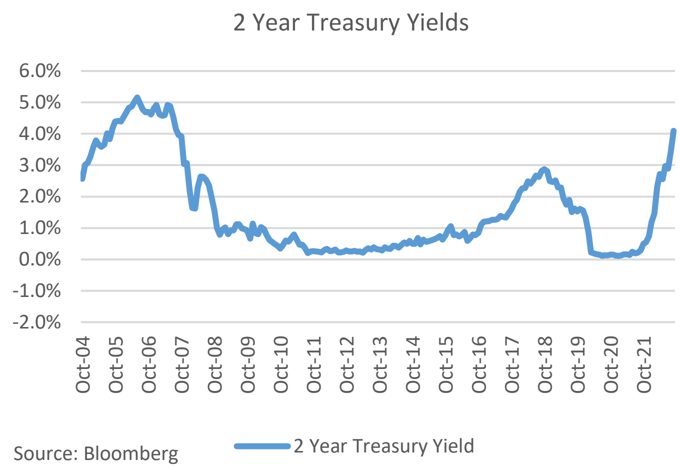
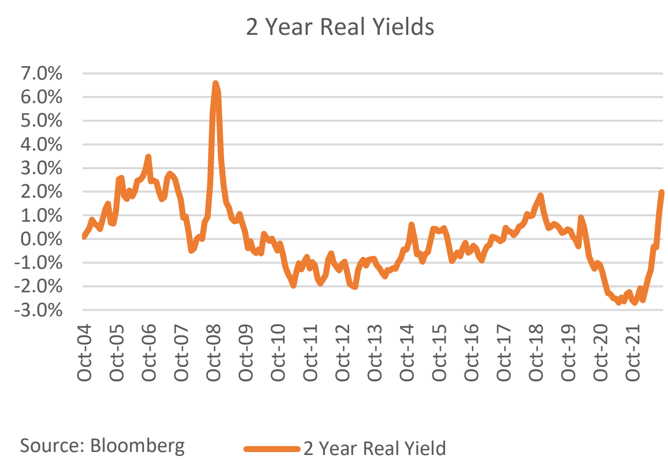
As evident in the chart above, the rise in yields has been led by short-dated yields, which is typically the case in a Fed rate hiking cycle. In fact, 2 year Treasury yields are now the highest among Treasury bellwethers. Expanding our lens, we can see US 2 year Treasury yields are the highest level since 2007. What's more, 2 year 'real' (i.e., inflation-adjusted), yields are at multi-year highs as well.



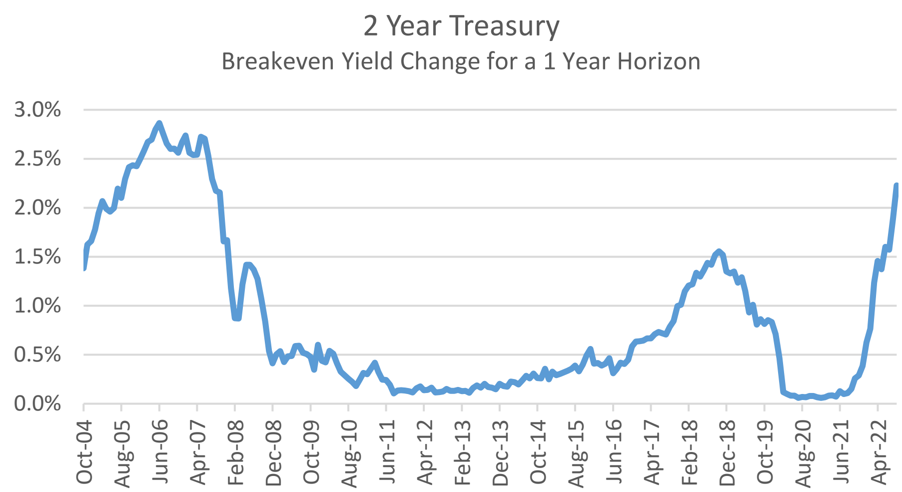


Given the current market and economic backdrop, which can fairly be characterized by uncertainty, geopolitical instability and rising recession odds, short duration bonds appear to offer a wealth of opportunities and should be considered by all investors.

For investors seeking safety, AAA-rated US Treasury Bills and Notes may offer an excellent alternative to low yielding bank or money market accounts. Investors may eliminate market risk by deploying a buy-and-hold strategy or short-dated Bill/Note Treasury ladder, reinvesting coupon income, or utilizing it for spending needs.

For investors seeking income and/or total return, active strategies are likely appropriate. Short-dated bonds now appear to have a very high probability of a positive returns given the yield cushion (~4% for a 2 year

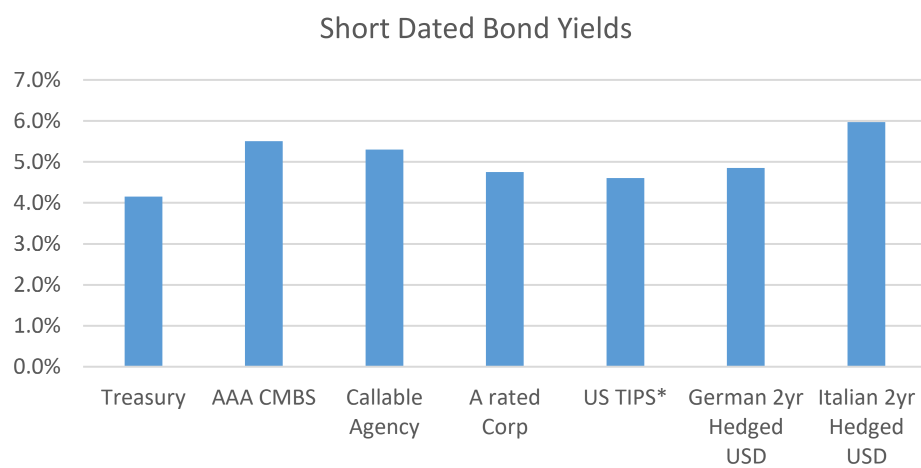
Treasury). To put the cushion in perspective, consider the following chart which graphs the breakeven yield change for a 2-year Treasury over a one year holding period.



Source: Bloomberg, NCA

As the chart shows, for a one year holding period, a 2 year yield would have to rise another 225 basis points from the current yield for the holding period return to be negative. While this could certainly happen, we think it's highly unlikely given the current market pricing and what the Fed is signaling.

Of course, the opportunities extend beyond the Treasury market. For investors able to take a bit more risk, we see active management opportunities in corporate credit, sovereign credit, optionality, illiquidity, structured products and inflation-linked bonds.



Source: Bloomberg, NCA
*Based on Inflation Swaps

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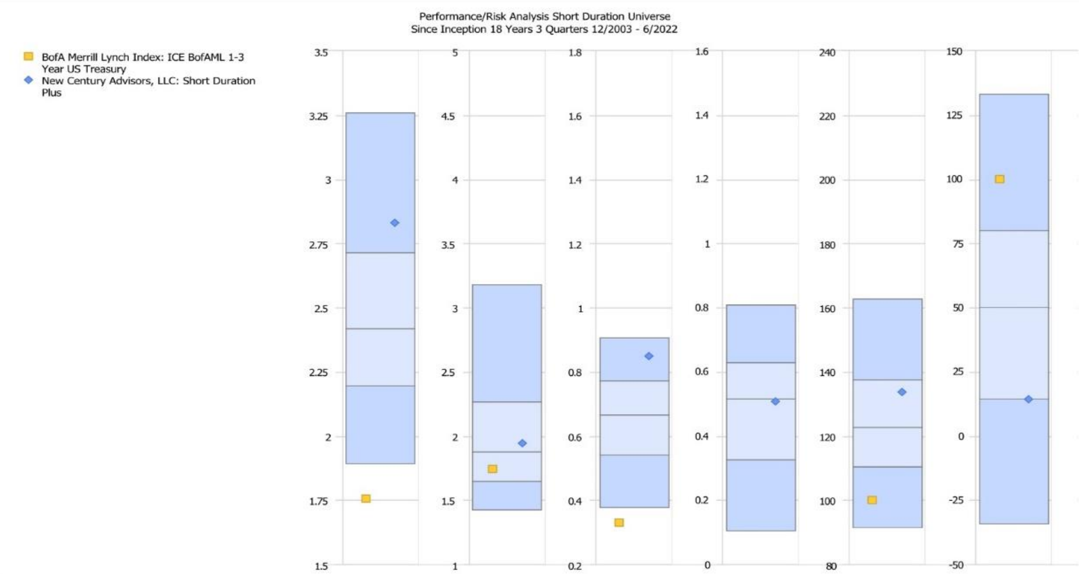
New Century Advisors has been managing Short Duration Plus since 2003 and Capital Preservation since 2008. These strategies seek to limit volatility due to interest rate fluctuation, while investing in a diversified pool of investment grade securities. They aim to balance risks across a broad opportunity set while attempting to limit exposure to duration risk. These strategies seek to have a high probability of a positive return each year.

As of 2Q 2022, Short Duration Plus ranked 14th percentile since inception in its peer universe in terms of performance, with strong upside and downside market capture statistics.



Universe: eVestment US Short Duration Fixed Income (Percentile)

	VT	RM	Returns Since Inception 18.75 Years³	Rk	Standard Deviation Since Inception 18.75 Years³	Rk	Sharpe Ratio Since Inception 18.75 Years² ³	Rk	Information Ratio Since Inception 18.75 Years¹ ³	Rk	Upside Market Capture Since Inception 18.75 Years¹ ³	Rk	Downside Market Capture Since Inception 18.75 Years¹ ³	Rk
5th percentile			3.26		1.42		0.91		0.81		162.66		-34.27	
25th percentile			2.71		1.65		0.77		0.63		137.45		14.29	
Median			2.42		1.88		0.66		0.51		122.63		49.96	
75th percentile			2.19		2.26		0.54		0.33		110.33		79.95	
95th percentile			1.89		3.18		0.38		0.10		91.36		133.08	
# of Observations			137		137		137		137		137		137	
BofA Merrill Lynch Index	IX	IX	1.76	99	1.74	39	0.33	97	---	---	100.00	92	100.00	87
New Century Advisors, LLC	SA	GF	2.83	14	1.94	56	0.85	9	0.51	51	133.67	31	14.29	25

Results displayed in USD using Spot Rate (SR).

¹ICE BofAML 1-3 Year US Treasury; ²FTSE 3-Month T-Bill; ³Q4 2003 - Q2 2022

Capital Preservation ranked 1st percentile since inception in its peer universe with similarly strong upside and downside market capture metrics.

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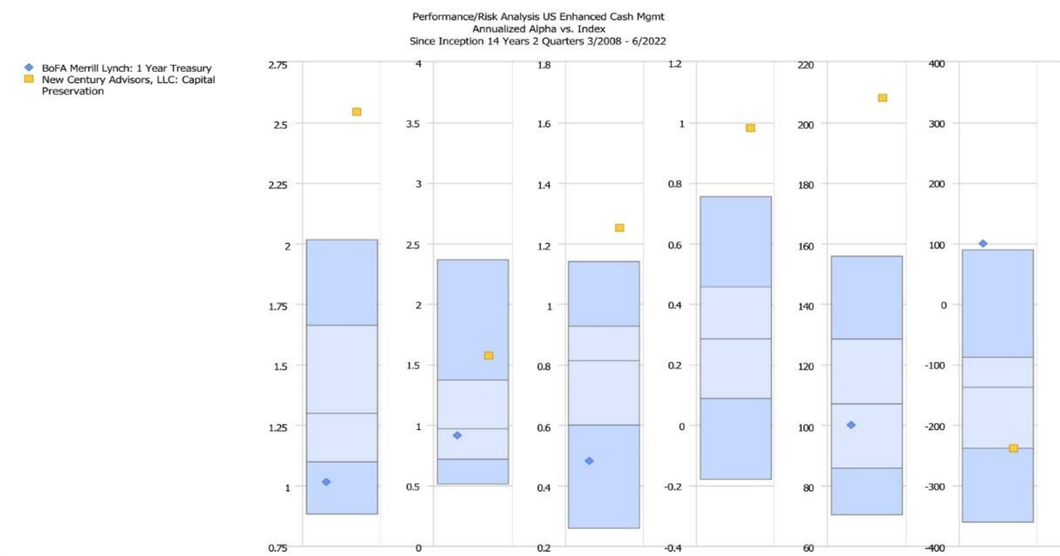

Universe: eVestment US Enhanced Cash Management (Percentile)

	VT	RM	Returns Since Inception 14.5 Years[3]	Rk	Standard Deviation Since Inception 14.5 Years[3]	Rk	Sharpe Ratio Since Inception 14.5 Years[2,3]	Rk	Information Ratio Since Inception 14.5 Years[1,3]	Rk	Upside Market Capture Since Inception 14.5 Years[1,3]	Rk	Downside Market Capture Since Inception 14.5 Years[1,3]	Rk
5th percentile			2.02		0.51		1.14		0.76		155.78		-360.84	
25th percentile			1.66		0.72		0.93		0.46		128.42		-238.49	
Median			1.30		0.97		0.81		0.28		106.98		-137.92	
75th percentile			1.10		1.37		0.60		0.09		85.72		-88.04	
95th percentile			0.88		2.37		0.26		-0.18		70.30		89.64	
# of Observations			53		53		53		53		53		53	
BoFA Merrill Lynch	IX	IX	1.01	84	0.91	44	0.48	88	---	---	100.00	58	100.00	96
New Century Advisors, LLC	SA	GF	2.54	1	1.57	85	1.25	2	0.98	1	208.16	1	-238.49	25

Results displayed in USD using Spot Rate (SR).

[1]1 Year Treasury; [2]FTSE 3-Month T-Bill; [3]Q1 2008 - Q2 2022

For more information on any of the data, trends, or trading strategies in this piece, or to discuss how New Century Advisors might help your fixed income allocation, please contact Leigh Talbot, CFA, Director of Client Relations at 240-395-0012 and ltalbot@ncallc.com

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