Interest Rates: Higher for Longer?

Positioning Portfolios in a "Higher for Longer" Environment

- Fed hiked rates yet again at the July meeting, to 5.25% to 5.50%. This is the highest level since 2001.
- We expect a pause at the September meeting, but it will depend on inflation data.
- The yield curve (as measured by the 10-year Treasury/2-year Treasury spread) first inverted back in April of 2022. Not only has the curve remained inverted, but it has reached levels not seen since the 1980s.

U.S. Treasury Yields

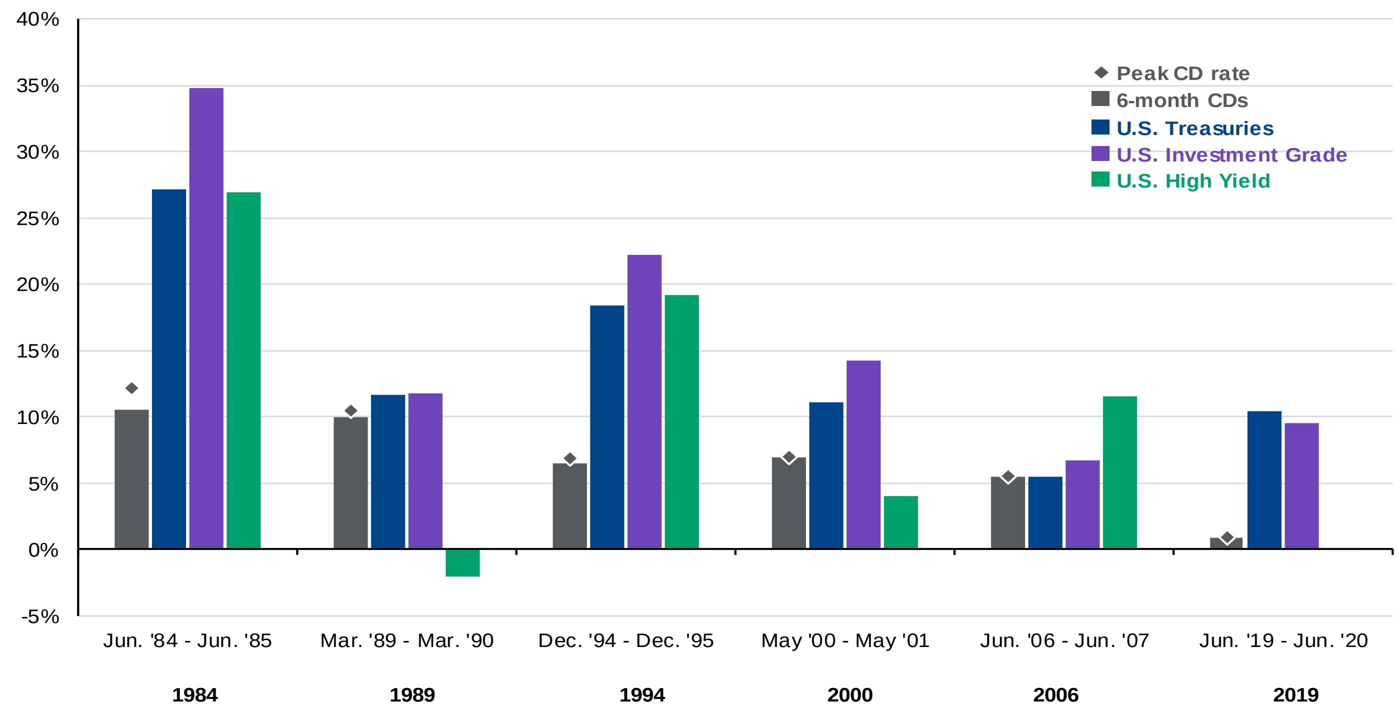
Date	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	30 Yr
9/7/2023	5.40%	4.66%	4.38%	4.35%	4.27%	4.36%

Should Investors Just Park Money in CDs?

If history is any guide, the short answer is "no." The chart* below shows the peak CD (certificate of deposit) rate during previous tightening cycles alongside the subsequent 12-month returns for U.S. Treasuries, U.S. investment grade bonds, and U.S. high yield bonds. *In all six cycles, investors would have been better off owning high-quality bonds as opposed to the CD.*

Fixed income opportunities outside of CDs

Peak 6-month certificate of deposit (CD) rate during previous rate hiking cycles and subsequent 12-month total returns



Source: Bankrate, Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. The analysis references the month in which the 6-month average CD rate peaked during previous rate hiking cycles. CD rate data prior to 2013 are sourced from the Federal Reserve whereas data from 2013 to 2023 are sourced from Bankrate. CD subsequent 12-month return calculation assumes reinvestment at the prevailing 6-month rate when the initial CD matures. All fixed income data are represented by the corresponding Bloomberg index.

Guide to the Markets – U.S. Data are as of March 31, 2023.

Consensus Estimates

While consensus estimates on future rates and Fed projections differ in their forecasts, both see a decline in rates over the next 2 years. A resulting return to a more normal, upward-sloping yield curve would likely benefit investors in shorter maturity bonds as rates would fall more at the short end.

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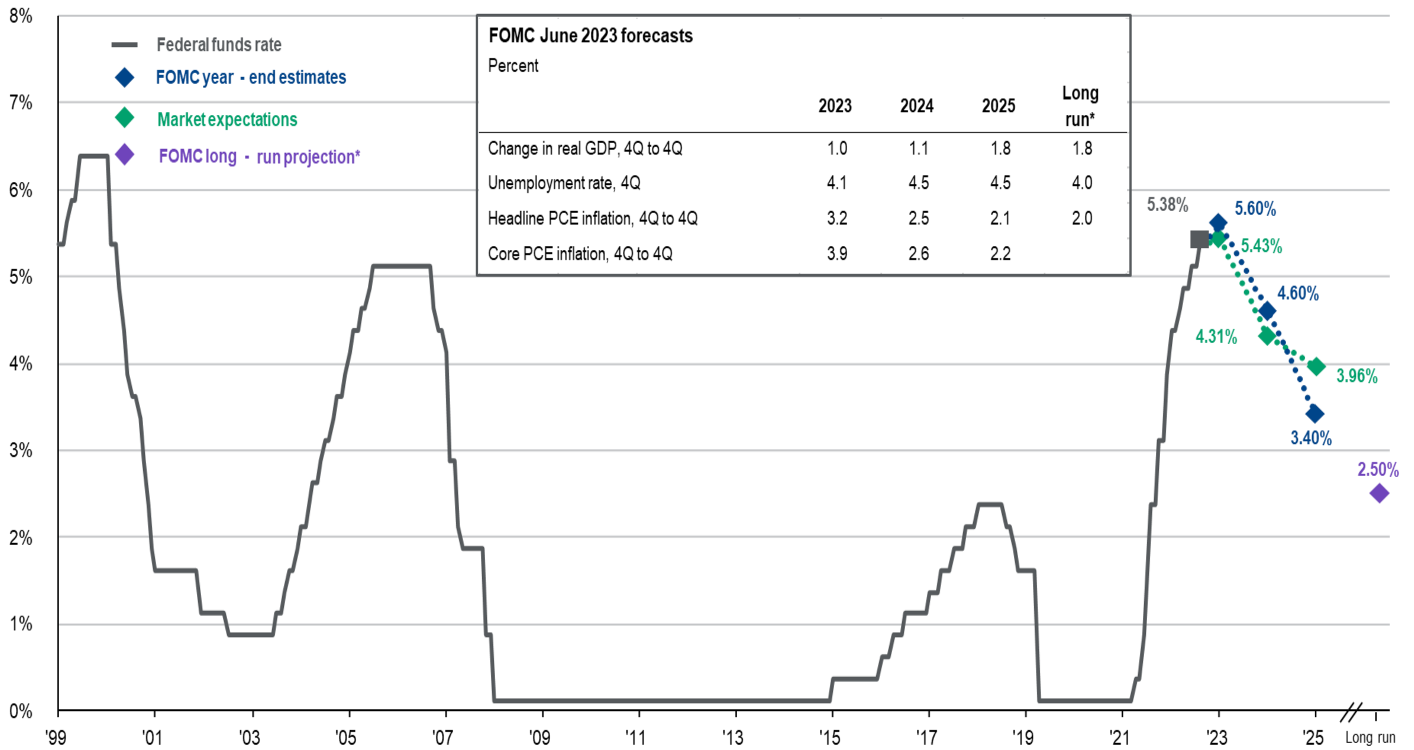
Consensus Estimates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

Guide to the Markets – U.S. Data are as of August 31, 2023.

Genter Capital Strategies

We have been managing high-quality taxable and municipal fixed income separately managed accounts for over 20 years. We think that our conservative approaches to interest rate and credit risk will serve investors well going forward, particularly in light of the current rate environment.

In our view, short duration strategies offer a compelling risk/reward trade-off in the current environment.

Genter Strategy	Yield-to-Worst	Duration	Average Credit Rating (S&P)
Taxable Quality Intermediate	5.49%	3.53	AA-
Taxable Quality Short-Term	5.34%	2.53	AA-
Short-Term U.S. Government	5.24%	1.40	AA+