

## 2<sup>nd</sup> Quarter 2022

“Elevating investing to be worth more” is the focus and mission statement of our parent company, Allspring Global Investments. There are a lot of layers to that mission, but from our fixed income vantage point, it appears the Federal Reserve and the fixed income markets may have taken a page from the Allspring playbook and interpreted that mission literally, as we have witnessed a strong increase in market rates not only over this quarter, but since the beginning of 2022. This has led many of you, from both our fixed income and stable value client groups, to ask our team the same question: “What can we expect with rising rates?”

The answer ties back to elevating investing to be worth more; however, in the interim we will all experience some portfolio results and/or statistics we haven’t seen in years. That means, our core fixed income clients might experience negative total returns for a period of time. For our stable value clients, we are seeing market to book value ratios lower than we’ve seen in a while. Neither are necessarily a cause for alarm, but more of an indication that fixed income investing is going to be worth more (income) as we are able to put higher yielding securities to work in your portfolios. That process won’t happen overnight, but you can already see in your attached client reports that the yields on your bond portfolios are moving up.

Now, to get from where we were at the beginning of the year to where we will ultimately end up in a rising rate environment will require prudence, skill, and in some cases, a little patience. Opportunities will present themselves where it may make sense to take a realized loss in order to achieve a better long term result. However, in other situations it may be better to hold existing securities until they are closer to maturity. In our stable value accounts, investors are protected from the negative total returns that accompany rising rates, but it will take some time for stable value crediting rates to rise to reflect the sharp increase in the market rates. These scenarios are expected in a rising rate environment and our Galliard investment team is poised to implement our time-tested investment process and philosophy that we have applied to portfolios for more than a quarter century. The moral of the story is: rising rates aren’t all bad with the end result being the Fed and the fixed income markets, coupled with some adept active management from Galliard, may well help all of us along the path by elevating investing to be worth more.

We’re excited to work with you through the challenges and opportunities of this rising rate environment. Please keep the questions coming to your relationship teams! In the meantime, we hope you, your families, and your staff are enjoying summer.

Ajay Mirza, Mike Norman, and Andrew Owen

*Senior Managing Principals*

P.S. For our stable value clients – in case you missed our recent whitepaper on stable value in a rising rate environment, you can find it [here](#).