

3rd Quarter 2023

US Government Credit Downgrade

One of the big headlines of this past quarter was the ongoing uncertainty about the direction of fiscal management in the US Government. Ultimately, this led to Fitch Ratings downgrading the long-term credit rating of the US one notch from AAA to AA+ this past August. The Fitch downgrade follows a similar downgrade (for similar reasons) by S&P in 2011. Fortunately, the most recent Fitch action had virtually no effect on how Galliard utilizes US Government securities. The majority of our client's guidelines required no immediate updates, thanks in part to lessons learned from the S&P downgrade in 2011 (if your guidelines did need updates, you will have already heard from your client team).

However, in your client report attached, you now may notice a much higher allocation to "AA" in your fixed income quality distribution graph, which reflects the new middle rating of the US Government moving from AAA to AA+. This impacted both your portfolio and the corresponding benchmark. The graph now reflects a much smaller allocation to AAA, as credit markets over the years have downgraded most corporate credits outside the AAA range as well. Also, depending on your overall portfolio's composition, you may see a one notch downgrade in the overall Weighted Average Quality.

Other News

Outside the downgrade news, Fed actions have continued to keep interest rates high, and the US Treasury yield curve inverted. The good news is that it appears the economy is slowing somewhat and the potential for declining rates may be on the horizon. So, in addition to strong yield in the portfolios, the potential for stronger total returns from portfolios is beginning to set up. We are seeing an uptick in inquiries about lengthening duration.

In the halls of Galliard, it was a busy quarter as well. Hearing the call for greater vehicle availability for our fixed income strategies, especially for non-ERISA portfolios, we launched 3(C)7 private funds for our short, intermediate, and broad market strategies earlier this month. In addition, for the first time, Galliard fixed income strategies are now available internationally in Canada and the Middle East. Finally, we are seeing increased interest in our enhanced core strategies from institutions looking for the potential for additional yield above our standard investment portfolios.

For our stable value clients, we completed a number of projects to augment our back-office operations to enhance the overall client experience. Many thanks to all of you who provided feedback as we worked through those updates.

As the leaves begin to change here in Minneapolis, the team is excited for the opportunities to come as we head into the end of the year. As always, we thank you for your confidence in Galliard and welcome the opportunity to assist you in your evolving fixed income and stable value needs.

Ajay Mirza and Mike Norman

Senior Managing Principals