

## 4<sup>th</sup> Quarter 2023

It's amazing what a difference a year can make. 2022 was an unbelievably volatile year and virtually every asset class faced strong headwinds as the Fed raised interest rates over 400 basis points. While the volatility continued in 2023 (with notable events including continued Fed rate increases, the Silicon Valley Bank bankruptcy and regional bank stress, and gyrating fixed income spreads), the ability to invest in the current higher yielding environment has been preferable to the historically low rates of less than two years ago. In the face of this extraordinary volatility these past two years, the advantages of active investing in fixed income have been a common theme.

That brings us to 2024 and what may lie ahead. There's much talk about the potential for the Fed to begin cutting interest rates at some point. The "when" is still debatable, and the impact to the Treasury yield curve - especially in light of the current inversion - will provide fertile ground for active fixed income managers like Galliard. We will continue to focus on positioning portfolios with a high quality bias and an emphasis on diversification to help protect against heightened volatility and/or a slowing economy. Regardless of what the year has in store, if and when rates start to decrease, there will be potential for increased total returns for fixed income portfolios.

Declining interest rates can bring positive outcomes for our stable value investors as well. 2023 brought higher blended yields to portfolios as the book value contracts continued to provide principal protection and crediting rates began their gradual ascent toward current market yields, as the book value contracts work to amortize the decline in their underlying securities' market value due to the dramatic rise in rates. A Fed pivot to lower rates and the eventual return to a more normally sloped yield curve should aid the competitiveness of stable value portfolios' blended yields. Time will tell!

2023 was a good year for the Galliard's fixed income approach and, looking forward, we believe 2024 has the potential to be another strong year in fixed income. Through our consistent, active approach to fixed income investing, we are looking forward to providing you with the optimal portfolio solution to meet your fixed income needs. On behalf of our entire team, thank you for the opportunity to put our time-tested approach to work for you. Here's to 2024 being the year of actively managed fixed income!

## A Note on T+1 Settlement

As you may be aware, later this year North American capital markets will shorten the standard settlement cycle for most trades in securities from T+2 to T+1. Specifically, the United States will transition to T+1 on Tuesday, May 28, 2024. Galliard and our operational teams at our parent, Allspring Global Investments, are working towards achieving full compliance with the new regulatory requirements and collaborating with industry participants to ensure we are fully prepared for the transition to T+1. As part of our readiness efforts, our teams are actively reviewing our policies, procedures, and practices to ensure that we are operationally ready for the change. There's no additional work required on the part of our Galliard clients, but we wanted you to be aware the teams are making the final preparations for the operational settlement change to our portfolios.

Ajay Mirza and Mike Norman

*Senior Managing Principals*