



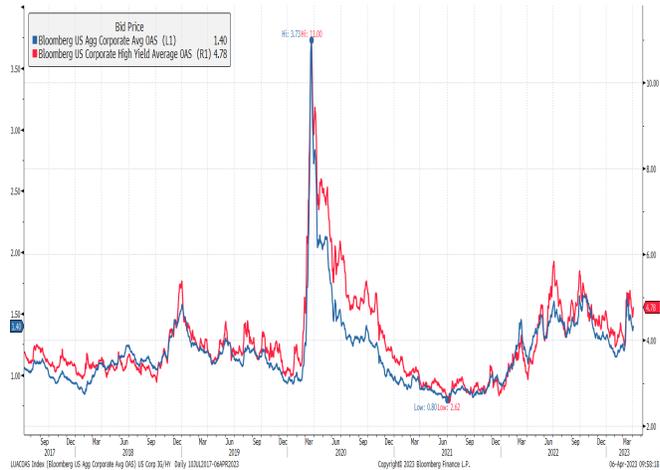


# BOND MARKET UPDATE

As of 03/31/23 | Volume 12, Issue 1 | FFTAM.com

## Credit

Credit risk was positive versus risk free in the 1st Quarter of 2023. Spreads were mixed for Investment Grade (IG) and High Yield (HY). IG spreads widened by roughly 8bps and HY spreads tightened by roughly 14bps. Risk premiums in IG and HY expanded quite a bit on the back of two regional bank failures but recovered nicely into the end of the quarter. Spread risk diverged quite meaningfully in March, Financials, REITs and Insurance sectors widened meaningfully while all other sectors experienced minor erosion. Overall, financial conditions have tightened significantly since the beginning of 2022 and have the potential to tighten further if the Fed continues to raise interest rates and banking confidence erodes.



## Looking Forward

Over the past year, the market has absorbed a substantial amount of Fed tightening in a short amount of time. With a 2yr UST at 3.80% and a cash rate at 5.00%, the market and the Fed have once again diverged with two very different rate path outlooks. The Fed may or may not raise rates at the next meeting. On the back of two regional failures, financial conditions have the potential to tighten more throughout the year. Banking confidence is key to sustained growth in the economy. The focus on large and mid-sized regionals continues to be intense. The Fed is walking a tightrope if they decide to press the cash rate to the upside in the future. The liquidity facility put in place by the Fed has the ability to address short-term funding issues for banks impacted, however, the cost of the facility is punitive. Banks tapping the facility will face margin pressure, in turn, tightening lending standards across the board. QT is still a wild card; the economy is slowing/stalling, and the effects of QT (less liquidity) are working in the background. We have found some pockets of IG credit risk that we like, continue to be void of High Yield, and continue to build up our US Treasury and Agency MBS exposure. 2023 looks to have the potential to be a much better year than 2022. Forward returns continue to look very enticing, and this is something we haven't been able to say in over a decade. As always, we run a high-quality portfolio that looks to take advantage of opportunities as they present themselves. We have been active in seeking those opportunities and feel good about the changes that have been made.

### ABILENE

400 Pine Street  
Suite 300  
Abilene, TX 79601  
325-627-7100

### BEAUMONT

3515 Dowlen Road  
Beaumont, TX 77706  
409-600-6460

### BRYAN/COLLEGE STATION

1716 Briarcrest Dr  
Suite 400  
Bryan, TX 77802  
979-260-2134



### ODESSA

3555 Billy Hext Rd  
Odessa, TX 79765  
432-367-8912

### SAN ANGELO

222 S. Koenigheim St  
San Angelo, TX 76903  
325-659-5987

### FORT WORTH

1000 Forest Park Blvd  
Suite 200  
Fort Worth, TX 76110  
882-703-6404

### HOUSTON

24080 Hwy 59 N  
Kingwood, TX 77339  
281-318-4625

Not FDIC Insured | May Lose Value | No Bank Guarantee

### STEPHENVILLE

2201 W. South Loop  
Stephenville, TX 76401  
254-918-6262

### SWEETWATER

201 Elm Street  
Sweetwater, TX 79556  
325-235-6644