Truist Advisory Services, Inc.

Fixed income perspective from the Investment Advisory Group

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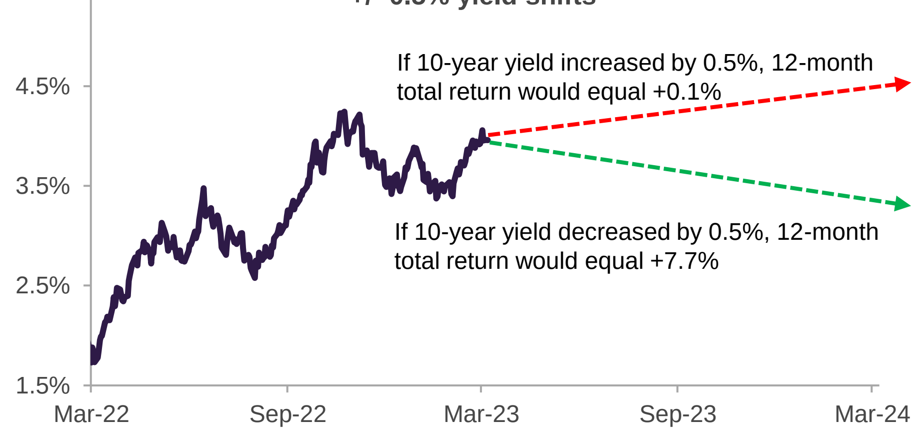
Rising yields are restoring value in longer-dated bonds

The 10-year U.S. Treasury yield is compelling above 4%

- Last week, **the 10-year U.S. Treasury yield eclipsed 4%** for the first time since November. Prior to October, the 10-year yield had not traded above 4% since 2008. Since last week, the 10-year yield retreated below 4%, falling to 3.97% as of this writing.
- We believe intermediate-term U.S. Treasuries with yields over 4% **offer a compelling entry point for investors seeking to tactically lengthen portfolio duration.** For those seeking passive income via buy-and-hold strategies, we recommend keeping purchases concentrated between 3-month and 2-year maturities where Fed policy has increased interest rates dramatically.
- For one, **income is a critical component to total fixed income performance**. Intermediate yields are flirting with levels unseen in almost 15 years and far above the record low (0.51%) touched in August 2020. Current yields offer a productive income stream that dramatically improves our forward-looking total return expectations in core fixed income.
- Second, longer duration and higher quality fixed income have tended to **outperform shorter-dated debt and lower-rated bonds as the economy slows** or enters a recession. They also tend to enhance portfolio stability during periods of stock market volatility. Our expectations for slower growth and choppiness in equity markets this year support an aggregate portfolio duration beyond neutral.
- At recent U.S. Treasury auctions, we have seen a **significant increase in demand for longer duration U.S. Treasuries among foreign buyers.** This has dampened upward yield momentum, particularly in the longest regions of the yield curve. We expect this trend to continue as our developed international peers face their own economic hurdles and seek out the U.S.'s higher relative yields and safe haven quality.
- We reiterate our **high quality bias in fixed income** over the very near term, emphasizing areas such as U.S. government and investment grade municipal bonds.
- **We anticipate bouts of volatility and lower liquidity** as Fed tightening persists and new economic data is published. Intermediate yields may move somewhat higher, but the majority of the increase in yields has unfolded. The Fed's need to hold policy rates high until inflation consistently falls creates a difficult macro backdrop. Thus, we expect U.S. Treasury yields to decline as the impact of the Fed's tightening campaign fully emerges and economic activity slows.

12-month projected 10-year U.S. Treasury bond returns – +/- 0.5% yield shifts



Data source: Truist IAG, Bloomberg
Data as of 3/7/2023
Past performance does not guarantee future results

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Long government bonds = ; All government bonds; Investment grade corporate bonds = ; S&P 500 = ; 1-3 year government bonds = ; High yield corporate bonds = .

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