

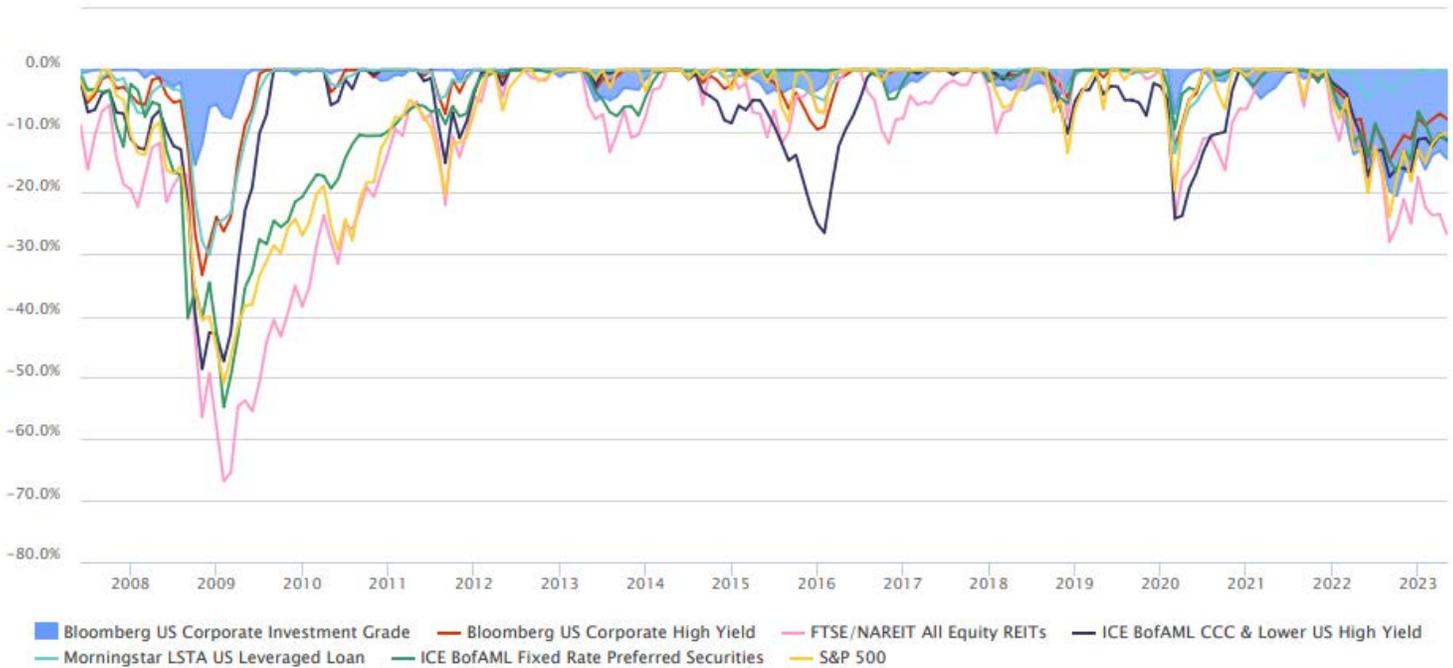
## A Tale of Two Drawdowns

June 2023

2022 was the worst year on record for investment grade corporate bonds largely due to a dramatic increase in interest rates. With this recency bias and the markets focused on the actions of the US Federal Reserve, many investors have looked to other income producing asset classes as a replacement for their corporate bonds. While these asset classes may have outperformed in a rate hiking event, it is important to remember that these other asset classes have a risk profile all their own during a credit event.

Drawdown is a measure of downside return calculated as the percentage decline in value from the previous peak to a subsequent trough. Here we look at the drawdown of income producing asset classes during the Global Financial crisis, a credit event, and compare it to the negative returns experienced so far during the current Rate Hiking Cycle.

Drawdown



	GFC Max Drawdown <sup>1</sup> (%)	Recent Fed Rate Hike Cycle <sup>2</sup> (%)
Bloomberg US Corporate Investment Grade	-15.42	-20.46
Bloomberg US Corporate High Yield	-33.31	-14.74
FTSE/NAREIT All Equity REITs	-66.79	-27.93
ICE BofAML CCC & Lower US High Yield	-48.61	-17.40
Morningstar LSTA US Leveraged Loan	-30.07	-4.90
ICE BofAML Fixed Rate Preferred Securities	-54.81	-16.46
S&P 500	-50.95	-23.87

Investment grade corporate bonds have historically been able to limit drawdown and provide advantageous risk adjusted returns during credit events. Investors may want to take this into consideration when determining their portfolio allocations.

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<sup>1</sup>Start date (i.e. previous peak) chosen for drawdown during Global Financial Crisis was June 2007.

<sup>2</sup>Time period chosen for the current Fed Rate Hike Cycle was August 2021 through May 2023 (most recent monthly data available). Drawdown for current cycle cannot be determined until after recovery.

Bloomberg US Corporate Investment Grade Index measures the investment grade, fixed-rate, taxable corporate bond market.

Bloomberg US Corporate High Yield Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

FTSE/NAREIT All Equity REITS is a market capitalization-weighted index that includes all tax-qualified real estate investment trusts (REITs) that are listed on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market list.

ICE of BofAML CCC & Lower US High Yield index tracks the performance of U.S. dollar denominated corporate debt publicly issued in the U.S. domestic market with a given investment grade rating CCC or below.

Morningstar LSTA US Leverage Loan Index is designed to deliver comprehensive, precise coverage of the US leveraged loan market. Underpinned by PitchBook | LCD data, the index brings transparency to the performance, activity, and key characteristics of the market.

ICE BofAML Fixed Rate Preferred Securities Index tracks the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market.

S&P 500 Index is a market-capitalization weighted index of 500 leading publicly traded companies in the U.S.

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