

**BOYD WATTERSON**

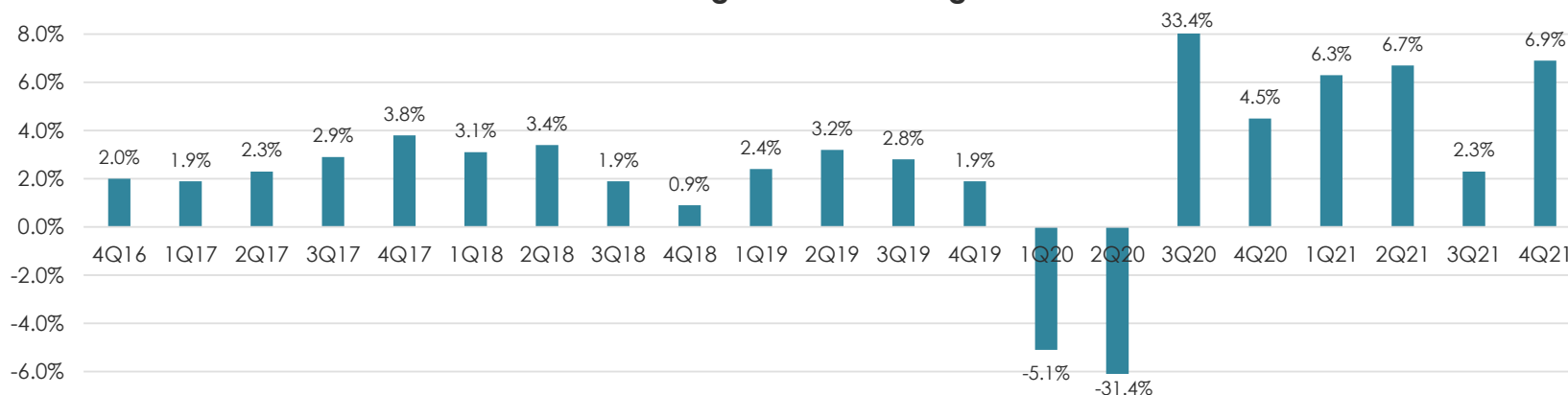
**A S S E T M A N A G E M E N T**

**Montgomery County**

March 31, 2022

# Our Macro View

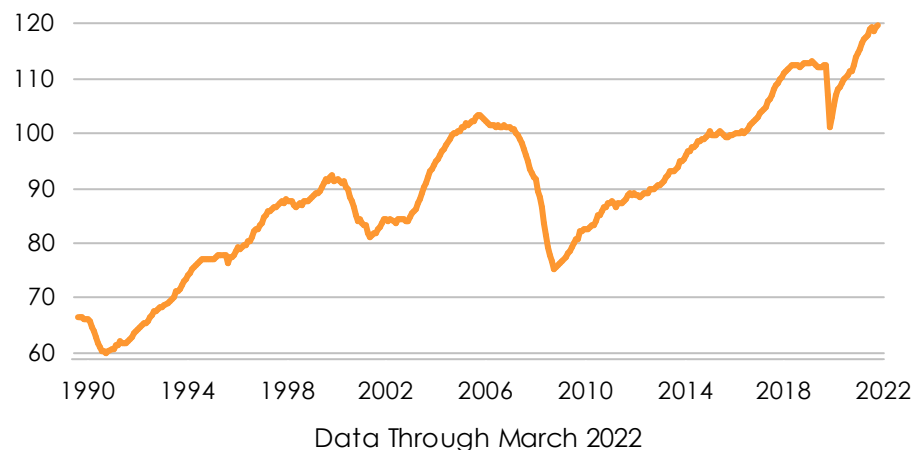
## Real GDP: Percent Change from Preceding Quarter



Source: U.S. Bureau of Economic Analysis.

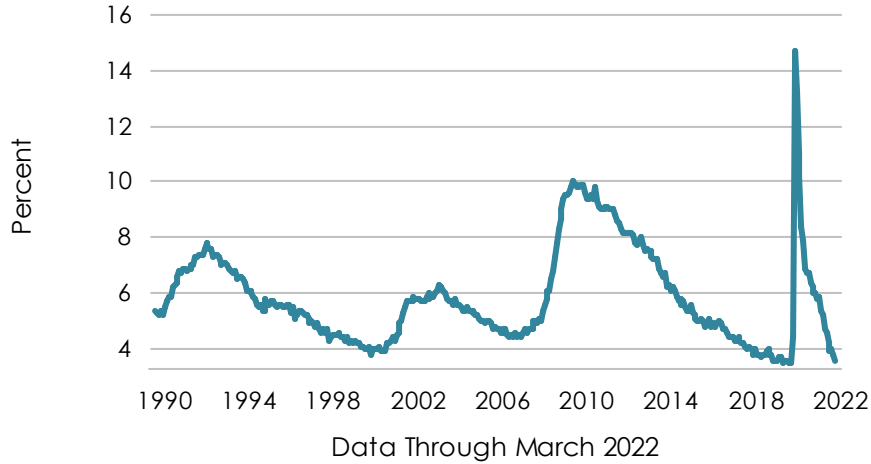
- Fourth quarter GDP increased at an annualized rate of 6.9%, a healthy rebound from the third quarter's 2.3% reading. Growth was driven by a large contribution from inventory investment, while personal consumption, likely impacted by the Omicron variant, was still a respectable 2.5%.
- We expect the rate of growth to decelerate as we move through the year, largely due to higher interest rates, elevated inflation and the effects of fading fiscal stimulus.
- The Bloomberg consensus estimate for annualized real GDP growth is 1.5% for the first quarter of 2022 and, looking forward, 3.4% for the full year.

## Composite Index of 10 Leading Indicators



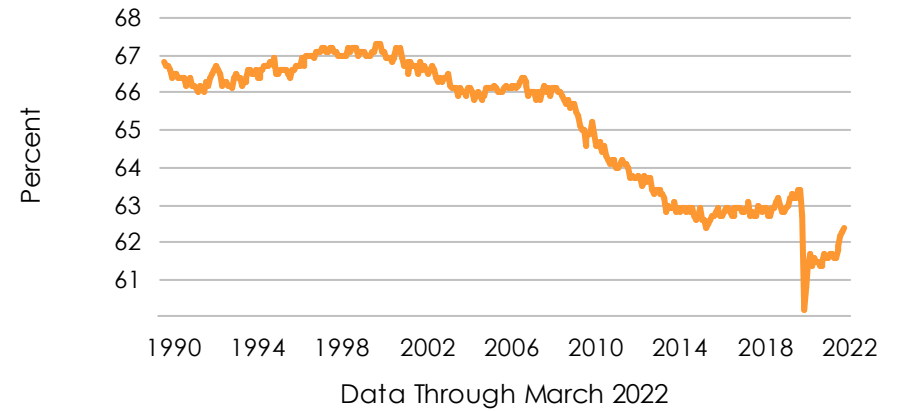
Source: The Conference Board

## CIVILIAN UNEMPLOYMENT RATE



Source: The Conference Board

## CIVILIAN LABOR FORCE PARTICIPATION RATE



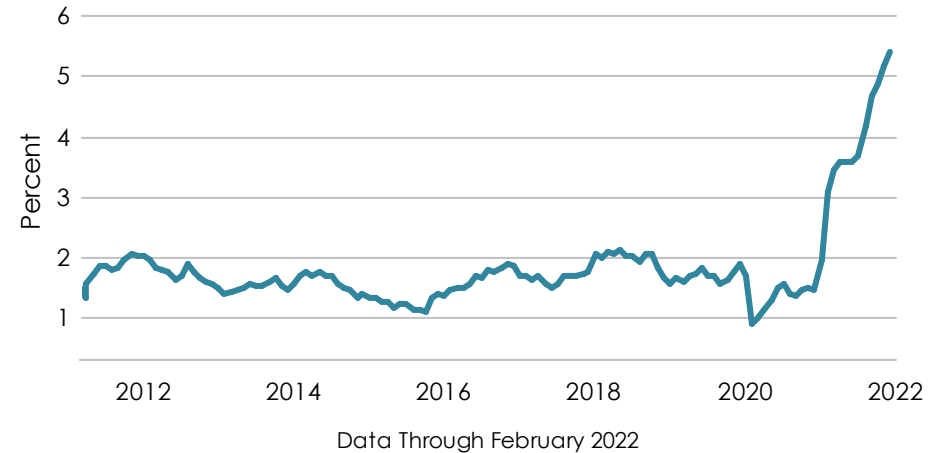
Source: The Federal Reserve Board

- The labor market tightened further as the unemployment rate declined to 3.6% in March, essentially back to pre-pandemic levels.
- Over the last six months, nonfarm payroll growth has averaged 600,000 per month and the 4-week moving average of initial jobless claims declined further, averaging 230,000 for the first quarter.
- The civilian labor force participation rate increased to 62.4%, still below the 63.3% reading prior to the pandemic. We expect further improvement in the coming months with job openings remaining near record levels and more people returning to work as the pandemic slows.

# Inflation

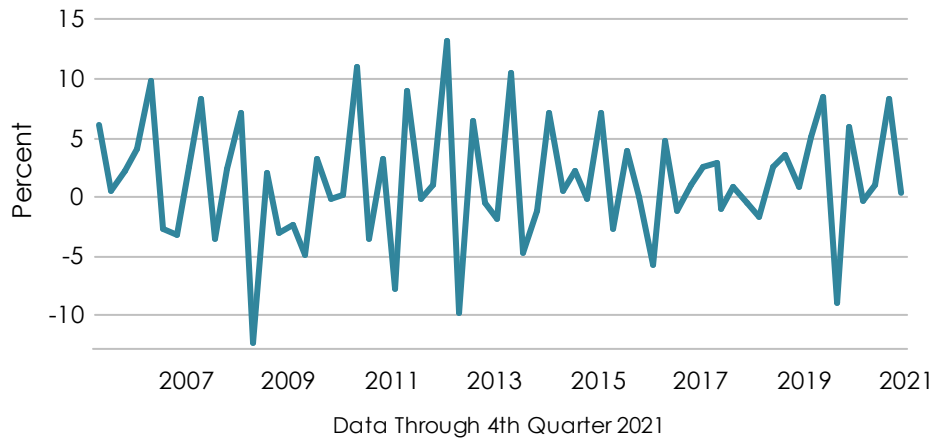
- Core PCE YOY continued to move higher in the first quarter, reaching 5.4%, its highest level since the 1980s. The FOMC has made it clear that bringing inflation back toward their target is their primary objective with aggressive policy tightening on the horizon.
- The 10-year TIPS breakeven rate ended the first quarter at 2.82%, while the 2-year TIPS breakeven rate moved over 100 basis points higher to 4.40%. This sharp inversion signals the market expects inflation to slowly decline over the coming years yet remain above the FOMC's 2% average inflation target.

## CORE PCE YOY



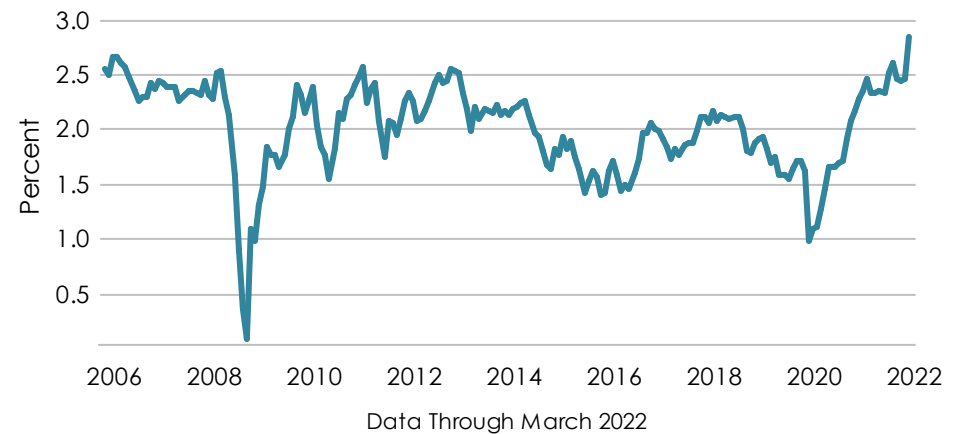
Source: FactSet

## CHANGE IN UNIT LABOR COST



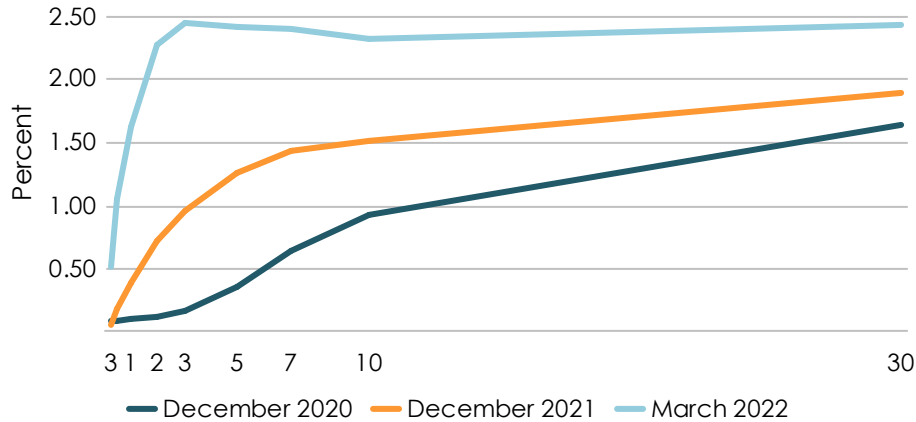
Source: Federal Reserve Bank of St. Louis

## US 10-YEAR TIPS BREAKEVEN RATE



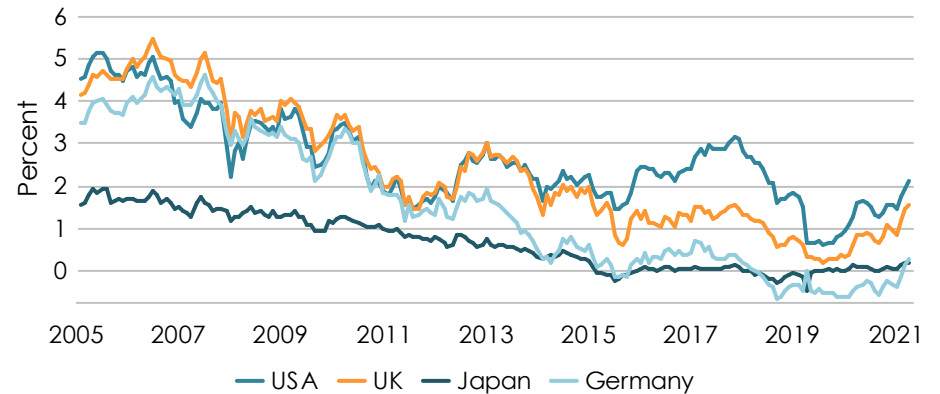
Source: Federal Reserve Bank of St. Louis

## US TREASURY YIELD CURVES



Source: Federal Reserve Bank of St. Louis

## GLOBAL INTEREST RATES 10-YEAR



Source: Federal Reserve Bank of St. Louis

- Rising inflation, geopolitical risk and a hawkish Fed drove interest rates higher across the yield curve, with the largest movements centered in two-year to five-year maturities. With market rates well ahead of the Fed policy rate, we expect interest rate volatility to remain elevated as the FOMC tightens monetary policy while trying to balance the inflation and growth outlooks and avoid a recession.
- As other central banks around the world look to tighten monetary policy, the move higher in interest rates was not just confined to the U.S. markets. The amount of negative yielding global debt declined from \$11.3 trillion to just below \$3 trillion during the first quarter, its lowest level since 2015.
- The FOMC ended QE and implemented their first rate increase in March, while their updated 'dot plot' indicated a significant amount of additional policy tightening is on the way. The Committee's median projection for 2023 increased over 100 basis points to 2.8%, which is also above their longer run median projection of 2.4%. We expect to hear details regarding the balance sheet reduction plan in the coming weeks, specifically related to its timing and pace.

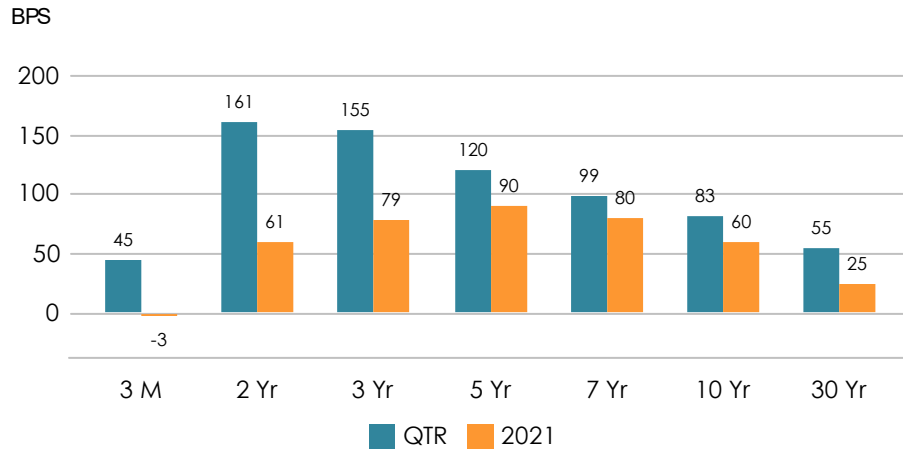
## Our Economic Outlook

- Tensions across the globe have changed the geopolitical landscape. We anticipate a pivot away from globalization in favor of protectionism and nationalism.
- A decline in global cooperation and international trade will result in higher levels of geopolitical risk and financial market volatility.
- Our current view centers around a higher probability for a stagflationary environment, as opposed to an outright recession over the next 12-18 months.
- U.S. consumers currently face the highest inflation rates since the early 1980s, at a time when economic growth is likely to decelerate as pandemic-related fiscal and monetary stimulus fades.
- To combat inflation, the FOMC's (Federal Open Market Committee) updated median projections now reflect a federal funds rate of 2.8% next year. Given the multitude of risk factors faced, we remain skeptical as to the Fed's ability to realize their projected path in the updated 'dot plot.'

## Fixed Income

- We expect volatility within the fixed income markets to remain elevated as further changes in monetary policy and heightened geopolitical risk dominate the headlines.
- After rising more than eighty basis points year-to-date, we expect the 10-year Treasury yield to remain range bound between 2.25% and 3.00% in Q2.
- We maintained a short duration bias in our portfolios but transitioned the maturity structure to a barbell to take advantage of the yield curve flattening trend, which we expect to continue.
- While the fundamental picture and default outlook remain supportive of corporate credit, current valuations and a weakening technical view give us a reason to be cautious.
- The move higher in interest rates, combined with wider credit spreads have resulted in a more attractive risk/reward profile for fixed income investors.

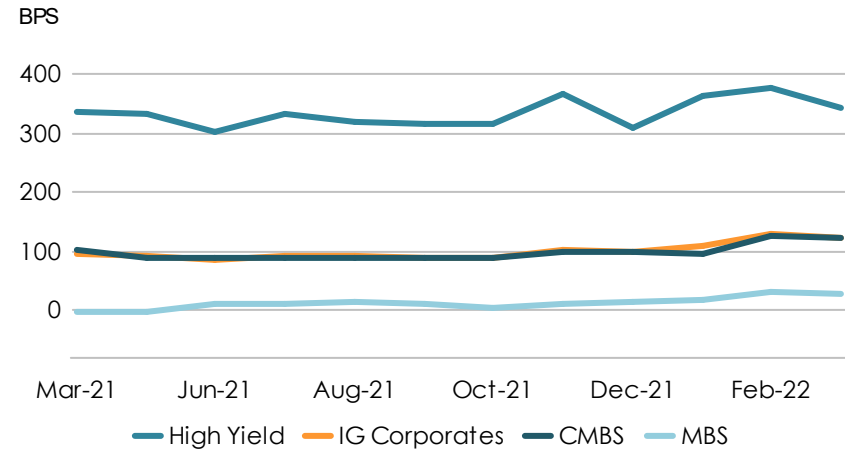
## US TREASURY YIELD CHANGE



Source: BofA Merrill Lynch Indices

- The first quarter saw interest rates rise across the yield curve as inflation moved higher and the FOMC signaled more aggressive policy tightening.
- Two-year yields increased 161 basis points over the quarter, while 30-year yields rose approximately one-third as much, or 55 basis points.
- The yield curve flattened dramatically, with the 2yr-10yr yield differential declining 78 basis points to zero at quarter-end. Conversely, the 3m-to-10yr yield differential remains very steep at 186 basis points.
- A flat or inverted yield curve has historically been a recessionary warning signal, yet our preferred measure, the 3m-10yr relationship, is not currently flashing a recessionary signal.

## US SPREAD SECTORS



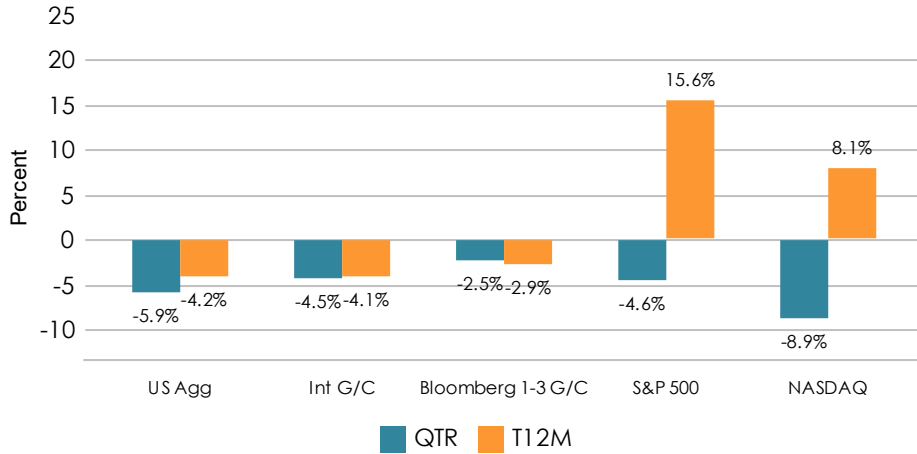
Source: Bloomberg, BofA Merrill Lynch Indices

- There was virtually nowhere to hide for fixed income investors in the first quarter as higher rates and wider credit spreads resulted in negative total and excess returns in most bond market sectors.
- The IG Corporate index widened 24 basis points over the first quarter on renewed risk aversion and heavy new issuance. Underscoring the risk off environment, on an excess returns basis, higher quality outperformed lower quality, and shorter duration outperformed longer duration credit.
- Similarly, high yield spreads widened 33 basis points yet, given the shorter duration, posted more modest negative excess returns than IG. Lower quality HY outperformed higher quality, with the single-B rated cohort generating a positive excess return for the quarter.
- All three securitized sectors had negative total and excess returns, the worst of which continued to be in the agency MBS sector. ABS posted its first back-to-back quarters of negative excess returns since the financial crisis.



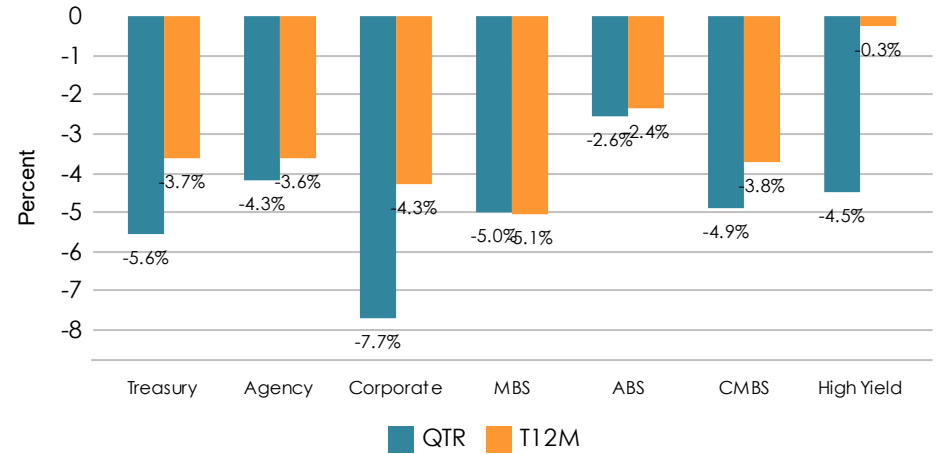
# Total Returns

## INDEX RETURNS



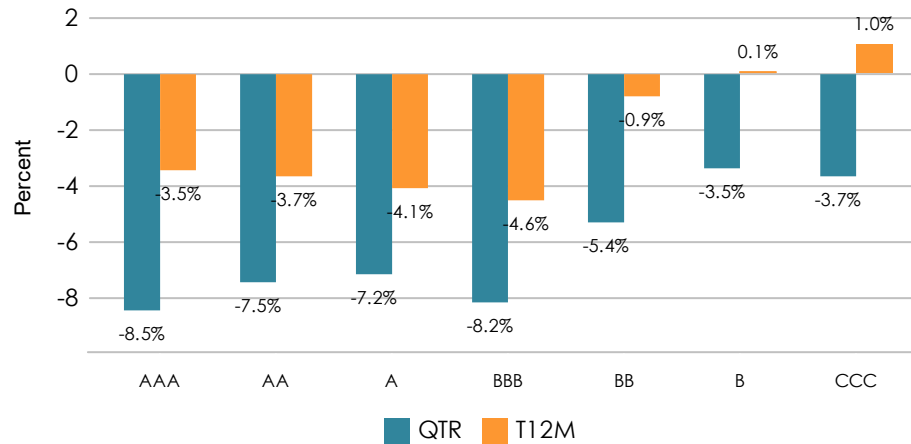
Source: Intercontinental Exchange Returns are calculated gross of fees.

## SECTOR RETURNS



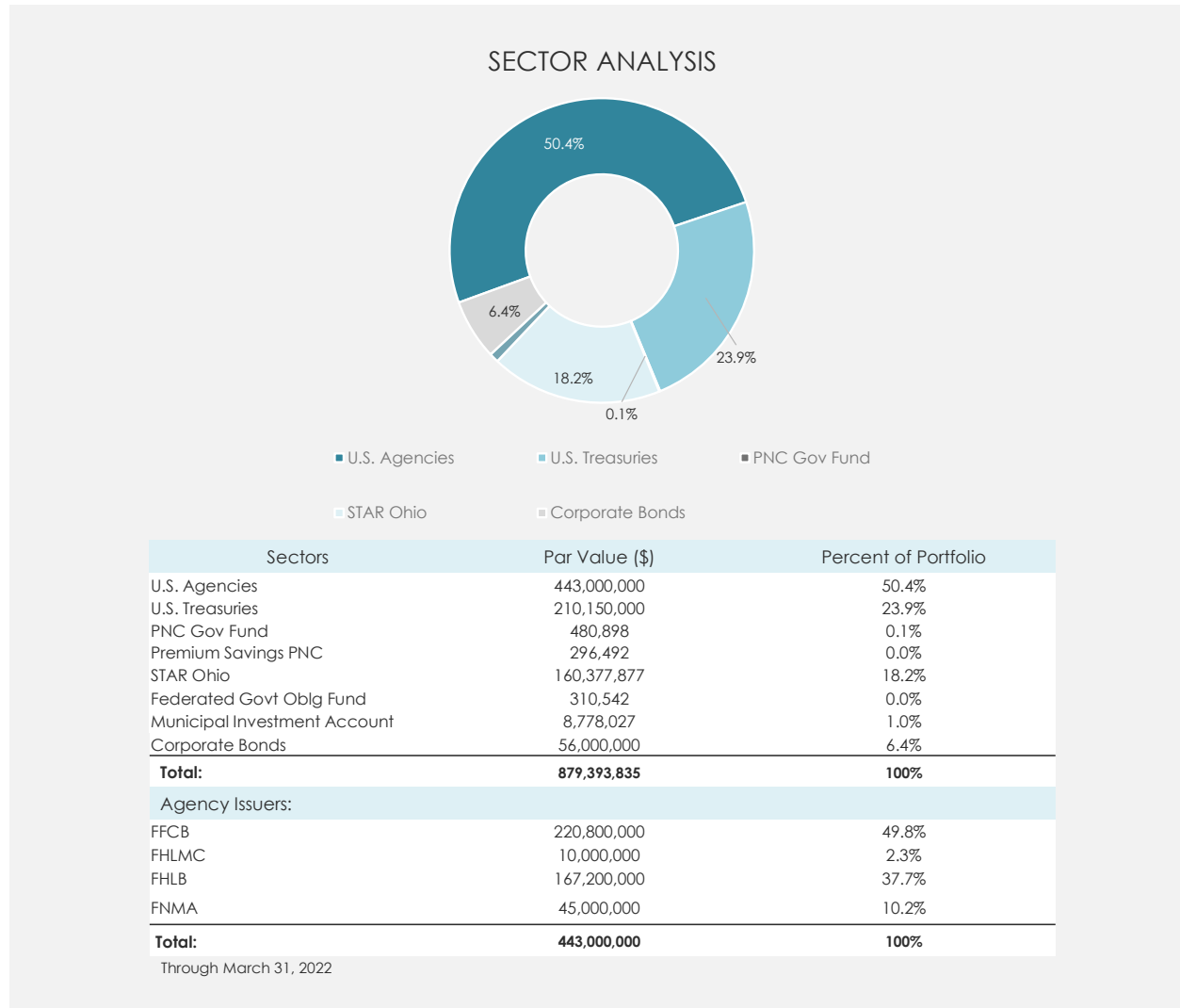
Source: Intercontinental Exchange Returns are calculated gross of fees.

## RETURNS BY QUALITY

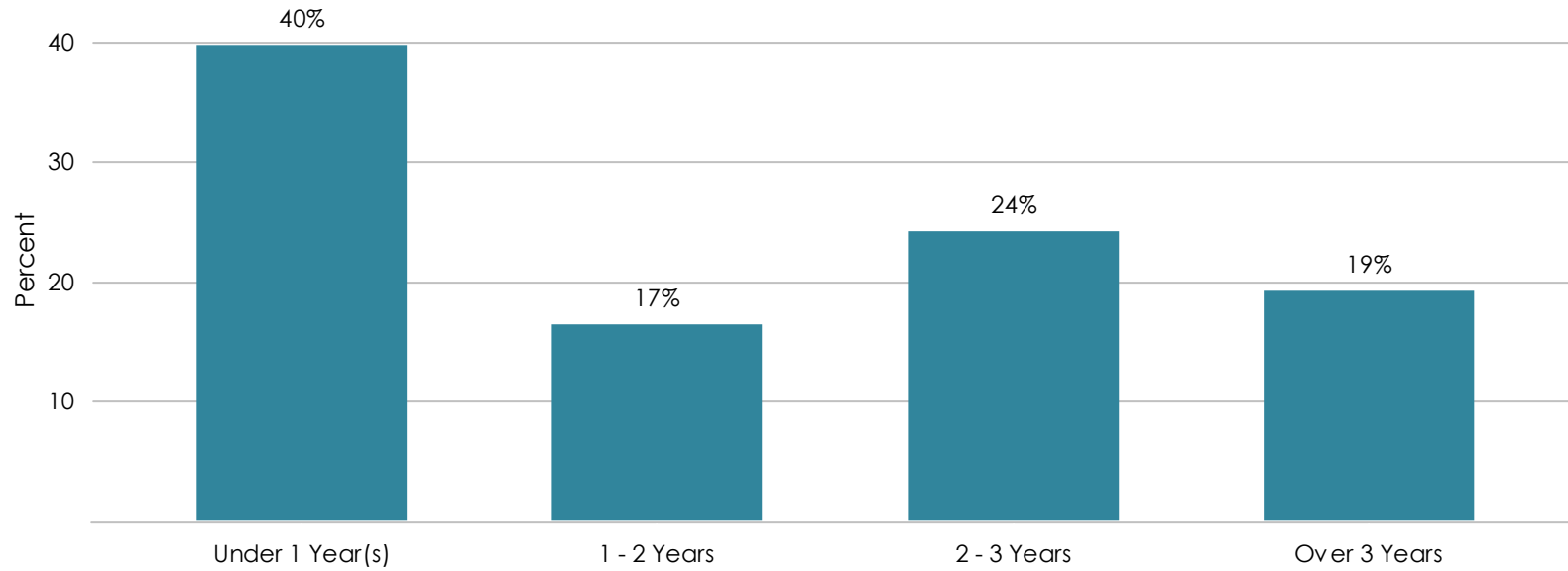


Source: Intercontinental Exchange Returns are calculated gross of fees.

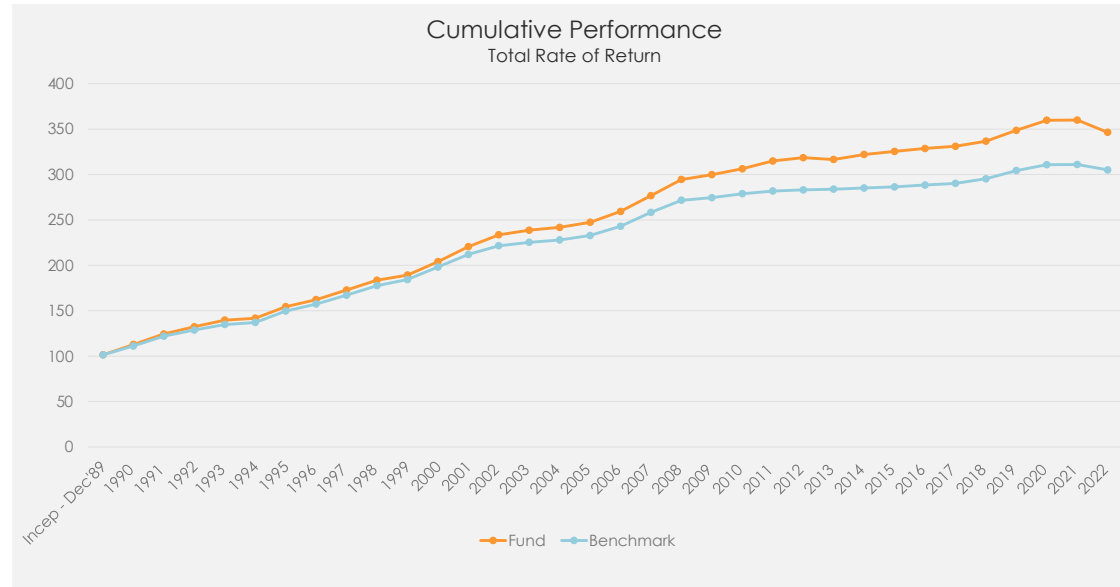
# Our Portfolio View



## MATURITY DISTRIBUTION



Maturity	Market Value	Percent
Under 1 Year(s)	\$ 337,273,715	39.8%
1 - 2 Years	140,484,034	16.6
2 - 3 Years	206,269,639	24.4
Over 3 Years	163,069,918	19.3
<b>Total</b>	<b>\$ 847,097,305</b>	<b>100.0%</b>
Effective Average Maturity of Portfolio:		1.57 yrs



### Investment Performance Through March 31, 2022

	Nov. '89-1999	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	March 31, 2022	Since Inception
<b>Total Return</b>																							
Fund (%)	89.21	5.95	2.16	1.31	2.31	4.82	6.69	6.46	1.80	2.16	2.80	1.14	-0.62	1.75	1.03	1.02	0.73	1.69	3.54	3.37	-0.80	-2.90	247.1
Benchmark* (%)	84.27	4.49	1.73	1.13	2.14	4.39	6.29	5.17	1.04	1.58	1.05	0.46	0.28	0.45	0.43	0.72	0.64	1.73	3.07	2.12	-0.31	-1.52	205.1
<b>Yield at Period End</b>																							
Fund at Cost	---	4.62	3.80	3.18	3.55	4.62	4.62	3.99	2.95	2.03	1.69	1.33	1.20	1.07	0.94	1.10	1.39	2.05	2.03	2.03	0.89	0.87	---
STAR Ohio	---	0.96	0.53	1.57	2.67	5.29	4.53	1.10	0.10	0.14	0.02	0.07	0.02	0.07	0.30	0.78	1.24	2.49	1.86	1.86	0.09	0.36	---
U.S. T Bills**	67.28	1.78	1.15	1.33	3.07	4.85	5.00	2.06	0.21	0.13	0.10	0.11	0.07	0.04	0.05	0.33	0.85	1.87	2.28	0.55	0.05	0.03	139.4
1-3 yr. Treasury**	93.18	5.76	1.90	0.91	1.67	3.96	7.32	6.61	0.78	2.35	1.55	0.43	0.36	0.62	0.54	0.89	0.42	1.58	3.55	3.10	-0.55	-2.34	238.7
1-3 yr. Agency**	95.22	6.11	2.19	1.18	1.75	4.50	6.76	7.05	2.17	2.32	1.53	0.85	0.42	0.70	0.70	0.96	0.65	1.78	3.48	2.67	-0.42	-2.28	257.7

\*Total Return of Benchmark Components. Benchmark is 1/3 weighting each.  
 \*\*Total Return of Benchmark calculated using monthly constituent index performance, then linked.  
 \*\*\*YoY Return of each Benchmark

# Transaction Summary

*Investment Portfolio Review*  
*Period From December 31, 2021 To March 31, 2022*

<u>Security</u>	<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Purchases</u>	<u>Price</u>	<u>Cost</u>
<b>Purchases</b>						
Federal Farm Credit Bank 0.35% 06/08/23	1/5/22	1/7/22	5,100,000	\$5,081,190.92	99.60	\$5,079,753.00
U S Treasury Notes 0.50% 03/15/23	1/5/22	1/7/22	10,000,000	\$10,016,917.74	100.01	\$10,001,171.88
U S Treasury Notes 0.13% 11/30/22	1/5/22	1/7/22	5,000,000	\$4,989,910.28	99.79	\$4,989,257.81
U S Treasury Notes 0.50% 03/15/23	2/2/22	2/4/22	25,400,000	\$25,368,458.31	99.68	\$25,318,640.63
U S Treasury Note 1.25% 07/31/23	3/2/22	3/4/22	15,500,000	\$15,494,119.26	99.85	\$15,476,992.19
U S Treasury Note 1.38% 06/30/23	3/11/22	3/15/22	10,250,000	\$10,265,197.15	99.87	\$10,236,386.72
U S Treasury Notes 2.00% 05/31/24	3/18/22	3/22/22	25,300,000	\$25,435,926.69	99.92	\$25,280,234.38
<b>Total Purchases</b>				<u>\$96,651,720.35</u>		<u>\$96,382,436.61</u>

# Appraisal Summary

*Investment Portfolio Review*  
*Period Ending March 31, 2022*

	<u>Market Value</u>	<u>Percent</u>	<u>Income</u>
Liquid Reserves	161,465,281	19.0	274,491
<b>Liquid</b>	<b>161,465,281</b>	<b>19.0</b>	<b>274,491</b>
U.S. Treasuries	205,931,508	24.3	1,378,563
U.S. Government Agencies	425,684,885	50.2	4,397,350
Corporate Bonds	55,349,714	6.5	703,100
<b>Fixed</b>	<b>686,966,107</b>	<b>81.0</b>	<b>6,479,013</b>
<b>Total Market Value</b>	<b>848,431,388</b>	<b>100.0%</b>	<b>6,753,503</b>

# Portfolio Appraisal

*Investment Portfolio Review*  
*Period Ending March 31, 2022*

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
310,542	Federated Govt Oblg Fund	0.170		310,542	100.000	310,542
480,370	Money Market	0.170		480,370	100.000	480,370
296,492	PNC Bank Mny Mkt Sav	0.170		296,492	100.000	296,492
160,377,877	STAR Ohio	0.170		160,377,877	100.000	160,377,877
<b>161,465,281</b>	<b>Liquid Reserves</b>			<b>161,465,281</b>		<b>161,465,281</b>
<b>161,465,281</b>	<b>Liquid</b>			<b>161,465,281</b>		<b>161,465,281</b>
10,000,000	U S Treasury Note	0.125	1/31/2023	9,994,531	98.816	9,881,640
10,250,000	U S Treasury Note	1.375	6/30/2023	10,236,387	99.281	10,176,323
15,500,000	U S Treasury Note	1.250	7/31/2023	15,476,992	98.965	15,339,544
8,500,000	U S Treasury Note	0.250	3/15/2024	8,432,266	96.063	8,165,313
10,500,000	U S Treasury Note	0.375	7/15/2024	10,495,078	95.445	10,021,757
11,000,000	U S Treasury Note	0.750	11/15/2024	10,999,570	95.582	10,514,020
19,200,000	U S Treasury Notes	0.125	11/30/2022	19,164,422	99.207	19,047,744
35,400,000	U S Treasury Notes	0.500	3/15/2023	35,319,813	98.906	35,012,795
15,000,000	U S Treasury Notes	0.250	6/15/2023	14,986,680	98.047	14,707,035
17,000,000	U S Treasury Notes	0.250	11/15/2023	16,985,977	96.898	16,472,728
16,000,000	U S Treasury Notes	0.375	4/15/2024	15,980,938	96.055	15,368,752
16,500,000	U S Treasury Notes	0.250	5/15/2024	16,463,906	95.582	15,771,030
25,300,000	U S Treasury Notes	2.000	5/31/2024	25,280,234	99.156	25,086,519
<b>210,150,000</b>	<b>U.S. Bonds/Notes</b>			<b>209,816,793</b>		<b>205,565,198</b>
<b>210,150,000</b>	<b>U.S. Treasuries</b>			<b>209,816,793</b>		<b>205,565,198</b>
10,000,000	Fannie Mae	2.500	2/05/2024	9,999,900	100.437	10,043,680
10,000,000	Fannie Mae	1.750	7/02/2024	9,914,000	98.624	9,862,360
10,000,000	Fannie Mae	1.625	10/15/2024	9,981,000	97.982	9,798,240
15,000,000	Fannie Mae ( callable )	0.500	8/14/2025	14,973,000	93.206	13,980,900
10,000,000	Federal Farm Credit Bank	1.500	9/06/2022	9,998,800	100.209	10,020,900
15,000,000	Federal Farm Credit Bank	1.850	9/20/2022	14,961,300	100.445	15,066,750
9,300,000	Federal Farm Credit Bank	0.350	6/08/2023	9,264,801	98.170	9,129,782
10,000,000	Federal Farm Credit Bank	1.600	8/14/2023	9,980,300	99.468	9,946,760
15,000,000	Federal Farm Credit Bank	1.700	9/25/2023	14,994,150	99.519	14,927,820



# Portfolio Appraisal

*Investment Portfolio Review*  
*Period Ending March 31, 2022*

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
10,000,000	Federal Farm Credit Bank	1.625	10/23/2023	9,994,200	99.342	9,934,230
10,000,000	Federal Farm Credit Bank	1.600	11/01/2023	9,990,300	99.274	9,927,370
10,000,000	Federal Farm Credit Bank	1.450	9/05/2024	9,991,500	97.914	9,791,440
19,000,000	Federal Farm Credit Bank	1.600	9/17/2024	18,833,370	98.221	18,662,009
10,000,000	Federal Farm Credit Bank	1.500	10/16/2024	9,967,900	97.851	9,785,110
5,000,000	Federal Farm Credit Bank (callable)	0.400	10/15/2024	4,994,500	95.010	4,750,510
10,000,000	Federal Farm Credit Bank (callable)	0.670	8/04/2025	10,000,000	93.834	9,383,420
10,000,000	Federal Farm Credit Bank (callable)	0.680	8/04/2025	10,000,000	93.641	9,364,120
7,000,000	Federal Farm Credit Bank (callable)	0.540	11/03/2025	6,989,500	93.115	6,518,043
15,000,000	Federal Farm Credit Bank (callable)	0.560	12/01/2025	15,000,000	92.979	13,946,895
15,000,000	Federal Farm Credit Bank (callable)	0.500	12/23/2025	15,000,000	92.495	13,874,265
10,000,000	Federal Farm Credit Bank (callable)	0.600	12/09/2025	10,000,000	93.110	9,310,990
20,000,000	Federal Home Loan Bank	1.500	8/15/2024	19,984,600	97.876	19,575,300
12,000,000	Federal Home Loan Bank (callable)	0.520	9/30/2024	12,000,000	95.433	11,451,960
12,000,000	Federal Home Loan Bank (callable)	0.625	12/30/2024	12,000,000	95.566	11,467,920
15,000,000	Federal Home Loan Bank (callable)	0.680	6/30/2025	15,000,000	94.069	14,110,335
15,000,000	Federal Home Loan Bank (callable)	0.600	12/15/2025	15,000,000	92.870	13,930,545
15,000,000	Federal Home Loan Bank (callable)	0.520	1/28/2026	15,000,000	93.241	13,986,210
6,000,000	Federal Home Loan Bank (callable)	0.600	2/18/2026	6,000,000	93.179	5,590,752
20,000,000	Federal Home Loan Bank (callable)	0.875	3/17/2026	20,000,000	94.196	18,839,180
10,000,000	FFCB (callable)	0.610	5/23/2025	9,990,000	93.883	9,388,290
10,500,000	FFCB (callable)	0.650	6/09/2025	10,492,125	94.005	9,870,515
10,000,000	FFCB (callable)	0.740	6/30/2025	10,000,000	94.141	9,414,080
10,000,000	FHLB (callable)	0.500	7/29/2024	10,000,000	96.122	9,612,210
7,200,000	FHLB (callable)	1.000	4/29/2026	7,200,000	94.476	6,802,258
11,000,000	FHLB (callable)	0.475	8/23/2024	11,000,000	95.821	10,540,343
8,000,000	FHLB (callable)	0.550	12/17/2024	7,997,200	95.475	7,638,008
7,500,000	FHLB (callable)	0.570	3/27/2025	7,500,000	94.405	7,080,345
8,500,000	FHLB (callable)	0.810	3/27/2026	8,500,000	93.870	7,978,976
10,000,000	Freddie Mac (callable)	0.750	4/30/2025	10,000,000	95.499	9,549,870
<b>443,000,000</b>	<b>U.S. Agencies</b>			<b>442,492,446</b>		<b>424,852,690</b>

# Portfolio Appraisal

*Investment Portfolio Review*  
*Period Ending March 31, 2022*

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
<b>443,000,000</b>	<b>U.S. Agencies &amp; Related</b>			<b>442,492,446</b>		<b>424,852,690</b>
5,000,000	Bank of New York Mellon	1.950	8/23/2022	4,998,400	100.236	5,011,820
4,000,000	KeyBank NA	1.250	3/10/2023	3,998,120	99.186	3,967,432
<b>9,000,000</b>	<b>Financial</b>			<b>8,996,520</b>		<b>8,979,252</b>
10,000,000	American Honda Finance	1.950	5/20/2022	9,998,640	100.062	10,006,230
5,000,000	Caterpillar Financial SE	0.450	9/14/2023	4,996,600	97.476	4,873,805
5,000,000	Caterpillar Finl Svcs	0.450	5/17/2024	4,994,800	95.653	4,782,660
5,000,000	Disney (Walt) Co	1.650	9/01/2022	4,989,150	100.082	5,004,085
5,000,000	Exxon Mobil Corp	1.902	8/16/2022	5,007,860	100.245	5,012,260
5,000,000	Intuit Inc	0.650	7/15/2023	4,998,800	97.828	4,891,400
3,000,000	Paccar Financial Corp	2.000	9/26/2022	3,001,800	100.352	3,010,557
2,000,000	Paccar Financial Corp	0.350	8/11/2023	1,997,442	97.412	1,948,244
7,000,000	Unitedhealth Group Inc.	0.550	5/15/2024	6,991,870	95.795	6,705,643
<b>47,000,000</b>	<b>Industrial</b>			<b>46,976,962</b>		<b>46,234,884</b>
<b>56,000,000</b>	<b>Corporate Bonds</b>			<b>55,973,482</b>		<b>55,214,136</b>
<b>709,150,000</b>	<b>Fixed</b>			<b>708,282,721</b>		<b>685,632,024</b>
<b>870,615,281</b>	<b>Total Portfolio</b>			<b>869,748,002</b>		<b>847,097,305</b>

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