

**BOYD WATTERSON**

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

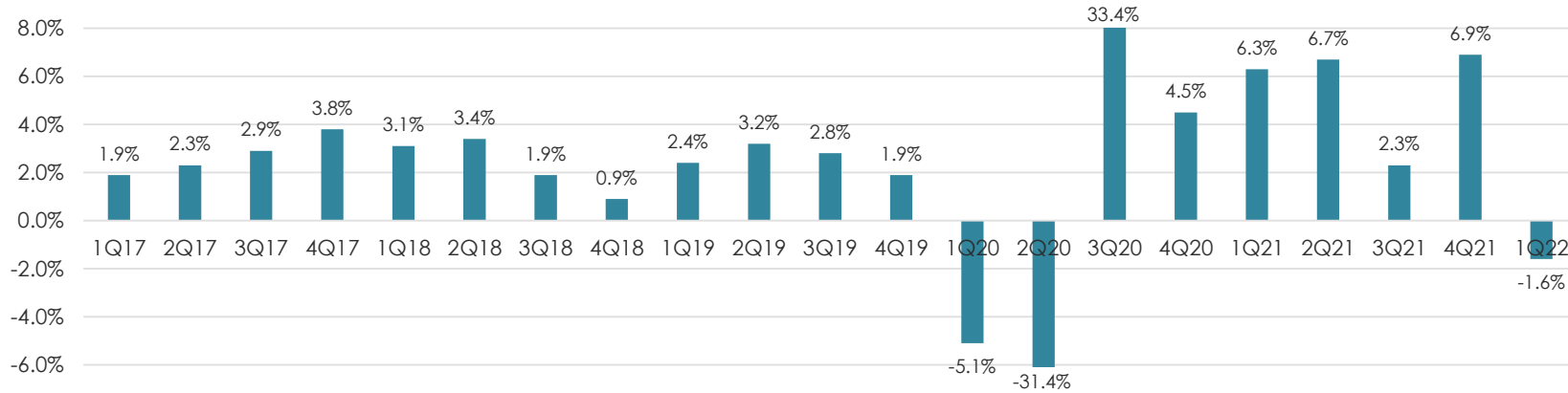
**Montgomery County**

June 30, 2022

This material was prepared exclusively for Montgomery County

# Our Macro View

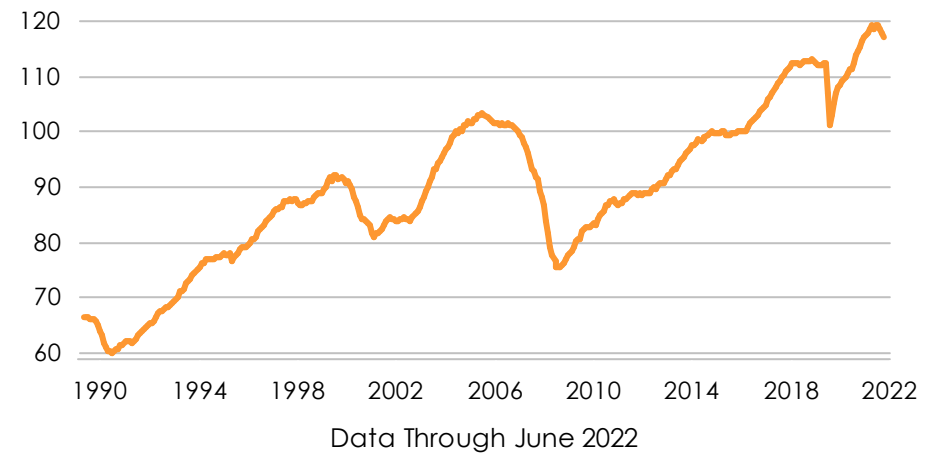
## Real GDP: Percent Change from Preceding Quarter



Source: U.S. Bureau of Economic Analysis.

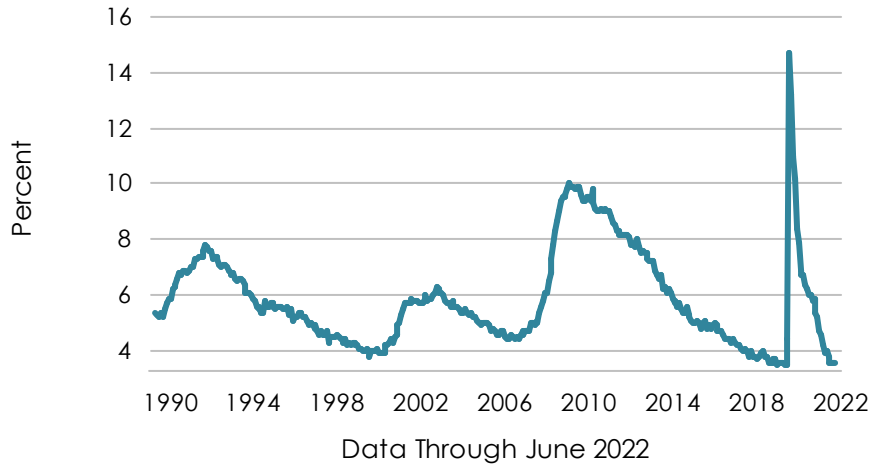
- First quarter real GDP surprised on the downside, declining at a 1.6% annualized rate to begin the year. Net trade and inventories weighed heavily while consumption also slowed from the prior quarter.
- Higher interest rates and persistent inflation are beginning to negatively impact various parts of the economy. As such, we expect demand, and hence, growth, to slow further in the coming quarters.
- U.S. and global growth forecasts have been revised lower. The Bloomberg consensus estimate for year-over-year real GDP growth for 2022 in the U.S. is now 2.4%, down from the 3.4% estimate last quarter.

## Composite Index of 10 Leading Indicators



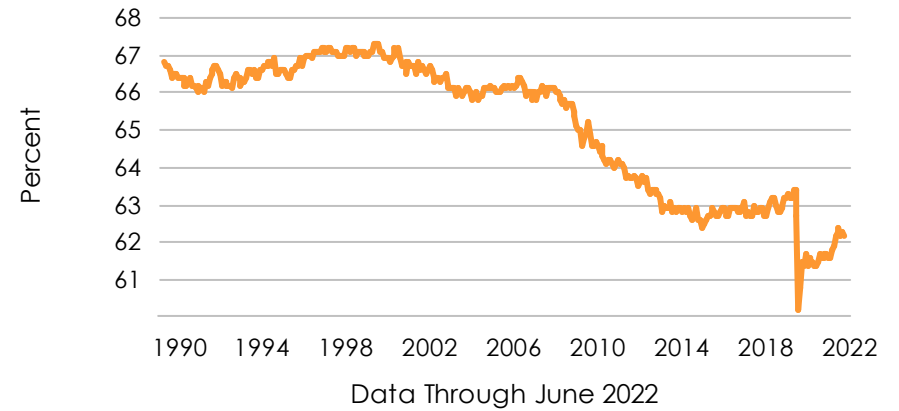
Source: The Conference Board

## CIVILIAN UNEMPLOYMENT RATE



Source: The Conference Board

## CIVILIAN LABOR FORCE PARTICIPATION RATE



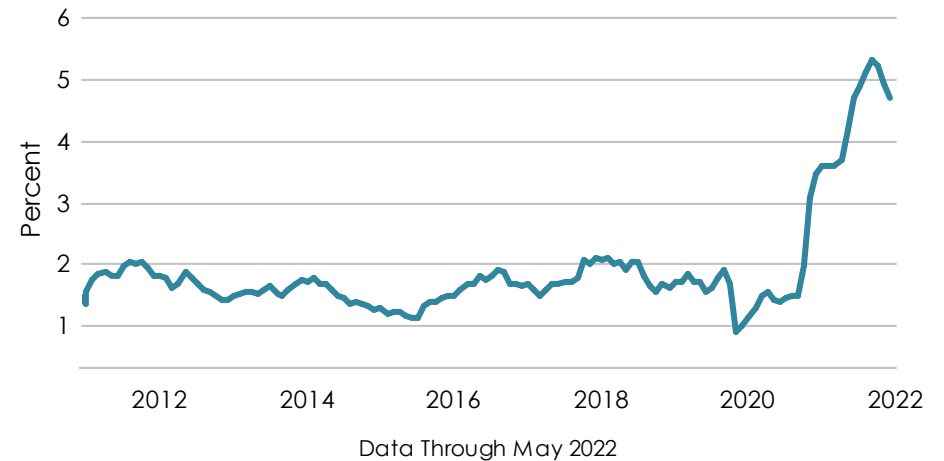
Source: The Federal Reserve Board

- Tightness in the labor market showed no signs of weakening as the unemployment rate has held steady at 3.6% for four consecutive months through June.
- Nonfarm payroll growth remains robust, averaging 457,000 per month over the first six months of 2022, while initial unemployment claims are back down to pre-pandemic levels. Furthermore, U.S. job openings remain above 11 million, indicating continued strong demand for labor.
- The civilian labor force participation rate remains below pre-pandemic levels, which may reflect pandemic-related changes in labor force dynamics. We will be closely watching the employment situation as any signs of weakening may foreshadow declines in broader economic activity.

# Inflation

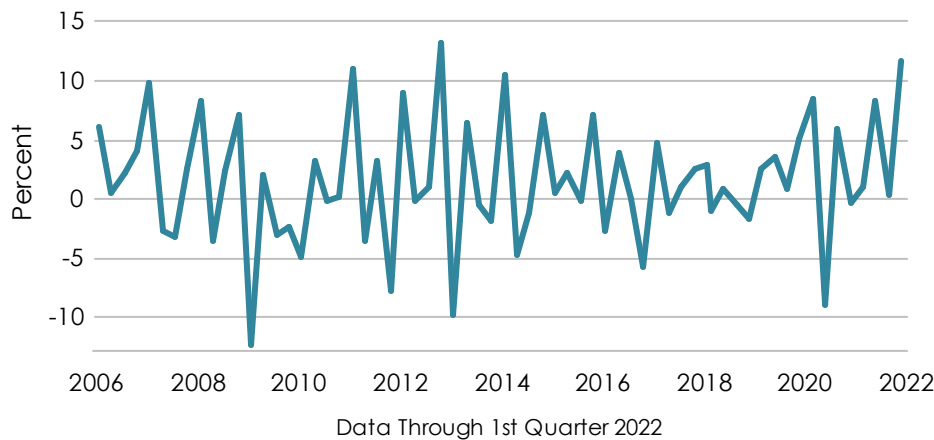
- Core PCE YOY has moderated from its recent highs, yet remains well above the FOMC's 2% average target, registering 4.7% in May. Both the FOMC and the Bloomberg consensus forecast expect this inflation metric to be back near the Fed's target by year-end 2024.
- After slightly topping 3% early in the second quarter, the 10-year TIPS breakeven rate closed June at 2.34%, largely in agreement with longer run forecasts of moderating inflation. The FOMC's more aggressive policy actions appear to have the market's convinced, as shorter maturity TIPS breakeven rates have declined significantly as well.

## CORE PCE YOY



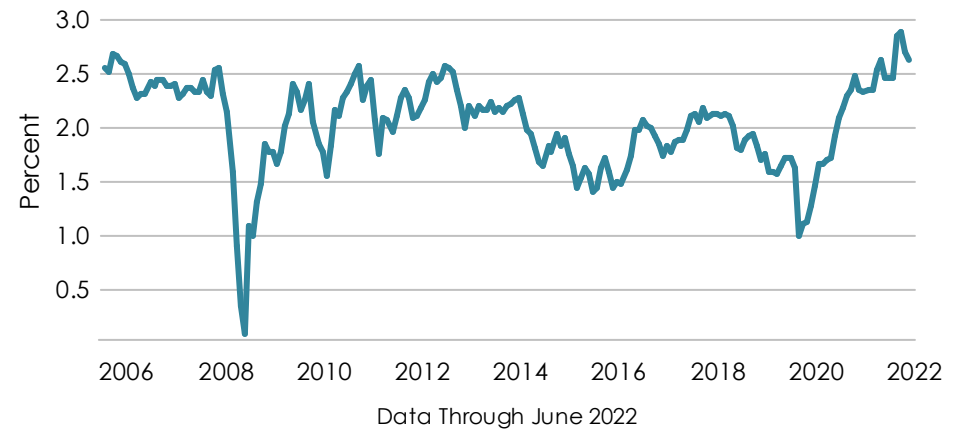
Source: FactSet

## CHANGE IN UNIT LABOR COST

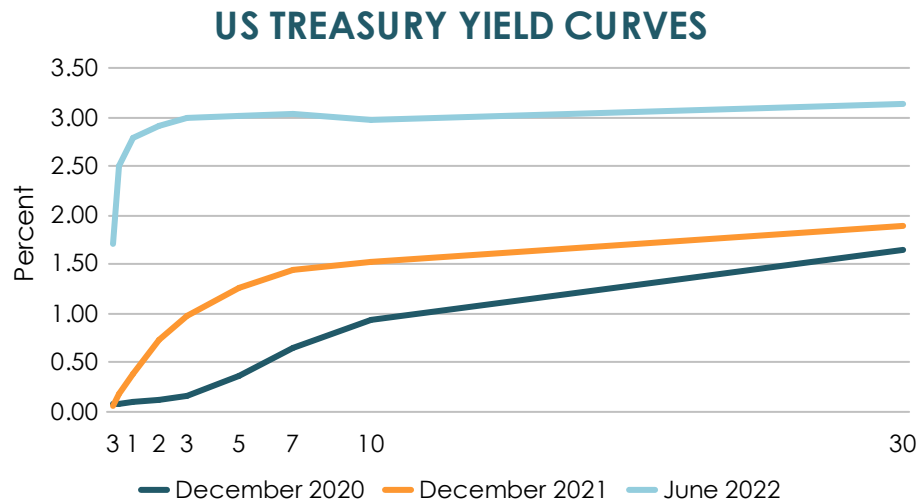


Source: Federal Reserve Bank of St. Louis

## US 10-YEAR TIPS BREAKEVEN RATE



Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis

- Persistent inflation and an increasingly aggressive policy tightening path from the FOMC have pressured interest rates higher. With three policy rate increases in the books, totaling 150 basis points, we anticipate the Committee will deliver additional increases in the range of 50 to 75 basis points at each of the next two FOMC meetings, with the size of increases declining thereafter.
- We expect the yield curve to remain relatively flat or potentially invert as the FOMC continues tightening monetary policy. The updated 'dot plot' indicates a median estimate of the federal funds rate at 3.8% by year-end 2023, well above the Committee's longer run estimate of 2.5%, underscoring their desire for a restrictive policy stance.
- Central banks around the world have begun raising interest rates as well, further reducing the amount of negative yielding debt to just above \$2 trillion at quarter-end.
- The FOMC began the process of balance sheet reduction in June, allowing fixed amounts of both Treasury and agency MBS to mature each month. When the plan reaches maximum roll-off in September, an aggregate of \$95 billion per month will be allowed to mature from their current securities holdings.

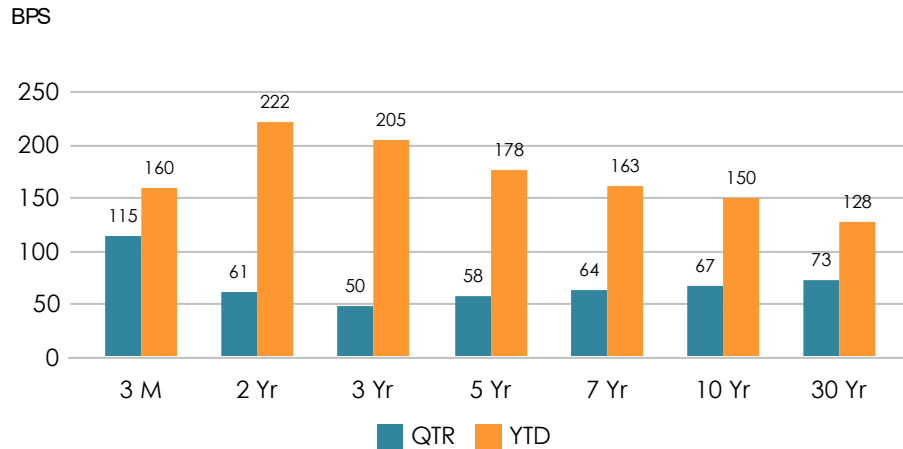
## Our Economic Outlook

- In anticipation of a more aggressive Fed, financial conditions continued to tighten as interest rates moved sharply higher, credit spreads widened, equity markets declined, and the U.S. dollar strengthened further.
- Inflation trends remained at 40-year highs, fueling concerns about its impact on consumer demand and resulting in downward revisions to the domestic and global economic outlooks.
- Our base case expectation is for a stagflationary environment. However, the combination of persistently high inflation and an aggressive path of monetary policy tightening complicates the likelihood for a 'soft landing.'
- The FOMC (Federal Open Market Committee) delivered their first seventy-five basis point rate increase since 1994, underscoring the Committee's 'expeditious' path of policy tightening.
- The FOMC's June 'dot plot' update reflected a median estimate of federal funds at 3.80% by the end of 2023, an increase of one hundred basis points from their March forecast. This comes at the same time the Committee lowered their GDP growth outlook while increasing their estimate for unemployment for 2022 through 2024.

## Fixed Income

- We expect interest rate volatility to likely remain elevated as the FOMC continues to tighten monetary policy while simultaneously trying to delicately balance the outlooks for both inflation and growth.
- We believe the upside in longer-term interest rates could be limited, and the yield curve could flatten in the near term as short-term interest rates rise at a faster pace than long-term rates.
- Given the uncertain macro environment, our view on the credit markets has turned more cautious as investors continue to reassess the outlook for risk assets.
- As a result, we have trimmed credit exposures and have focused on increasing both the quality and liquidity characteristics within our portfolios.
- The good news for fixed income investors is that, as interest rates have moved higher and credit spreads have widened, the future potential return profile has begun to look more attractive.

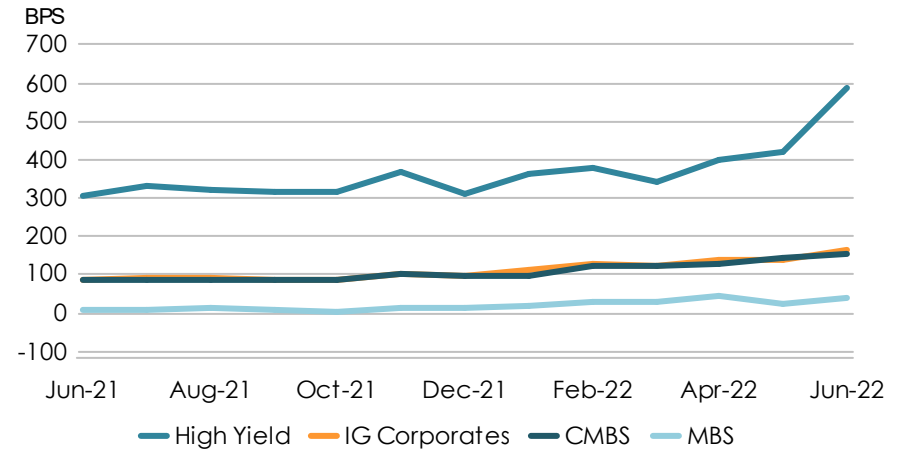
## US TREASURY YIELD CHANGE



Source: BofA Merrill Lynch Indices

- Interest rates moved higher in the second quarter as the FOMC increased their policy rate 125 basis points in an effort to slow demand and cool persistently high levels of inflation.
- The increase in rates was most pronounced in short Treasury bill maturities, while 2-year through 30-year maturities saw fairly uniform increases.
- The yield curve was volatile throughout the quarter but steepened only slightly with the 2yr-10yr yield differential increasing to six basis points. The sharp move higher in short rates resulted in the 3m-10yr yield differential narrowing 47 basis points to 139 basis points at quarter-end.
- We continue to monitor the yield curve shape for recessionary signals, yet the lack of a sustained inversion keeps us optimistic that recessionary fears are more likely a concern for 2023.

## US SPREAD SECTORS

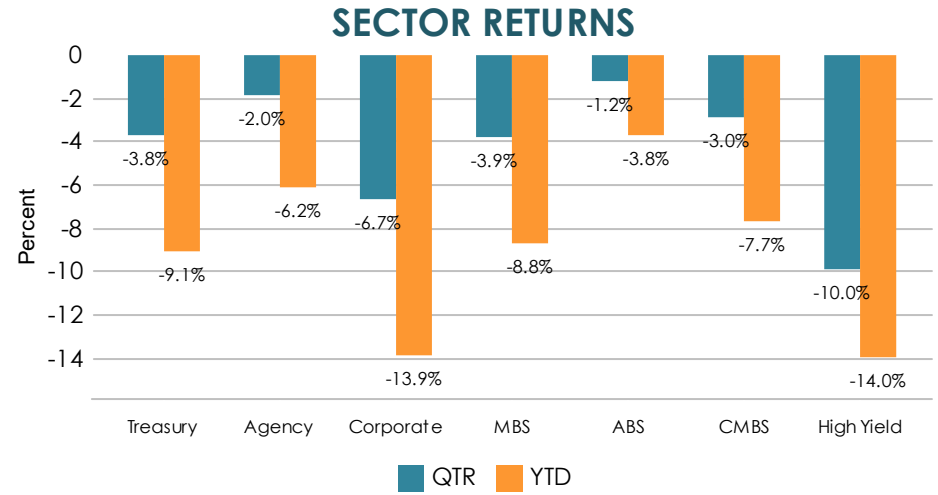
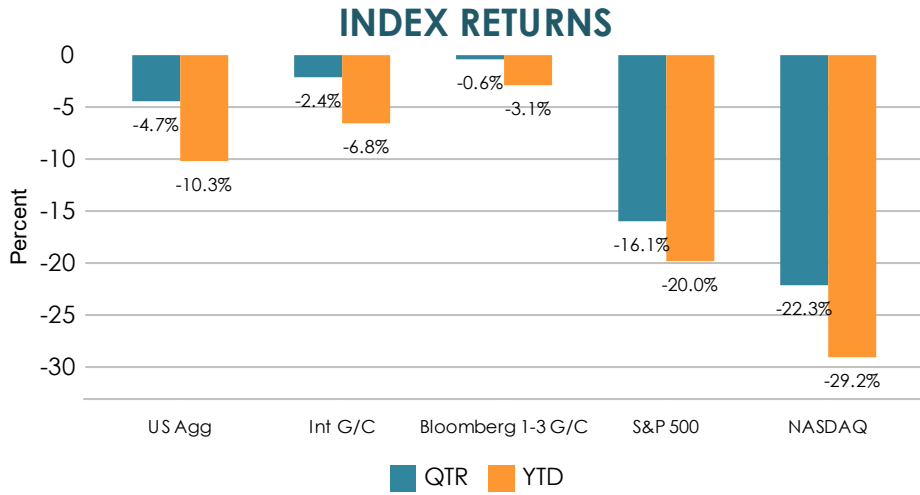


Source: Bloomberg, BofA Merrill Lynch Indices

- Similar to the first quarter, higher interest rates and wider credit spreads resulted in negative total and excess returns in virtually all sectors of the fixed income markets.
- Macro uncertainty and higher rates pressured nervous investors to sell risk assets. The IG Corporate index widened 42 basis points in the second quarter, resulting in a total return of -6.71%. On an excess return basis, higher quality outperformed lower quality and shorter duration outperformed longer duration corporate bonds.
- High yield credit saw similar trends, but to a greater magnitude. The high yield corporate index widened 244 basis points in the second quarter, generating a total return of -9.97%. Like investment grade credit, lower quality high yield felt the most pain with BB-rated bonds returning -8.62%, while CCC-rated bonds returned -13.91%.
- Total returns were negative for all three securitized sectors as well, led by agency MBS at -3.91%, followed by commercial mortgage-backed securities at -2.97%, and asset-backed securities at -1.25%.

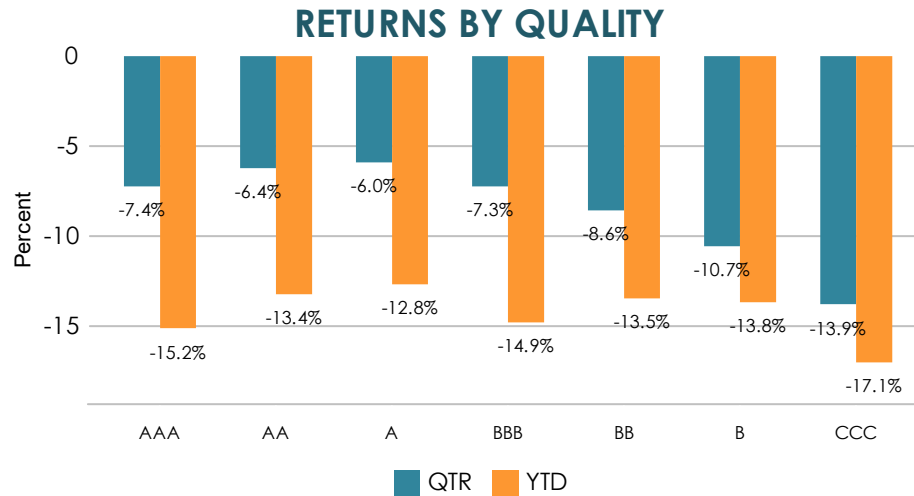


# Total Returns



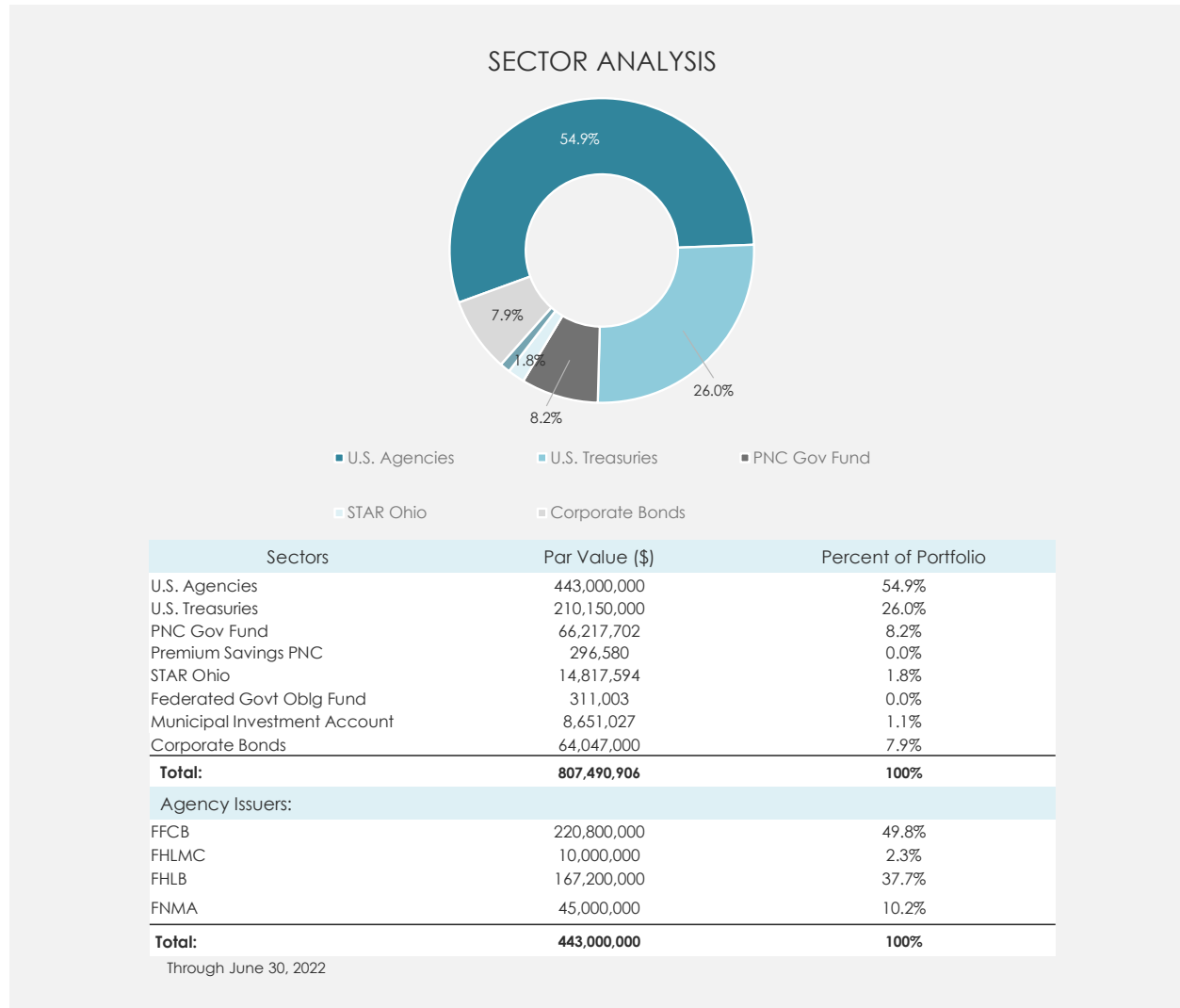
Source: Intercontinental Exchange Returns are calculated gross of fees.

Source: Intercontinental Exchange Returns are calculated gross of fees.

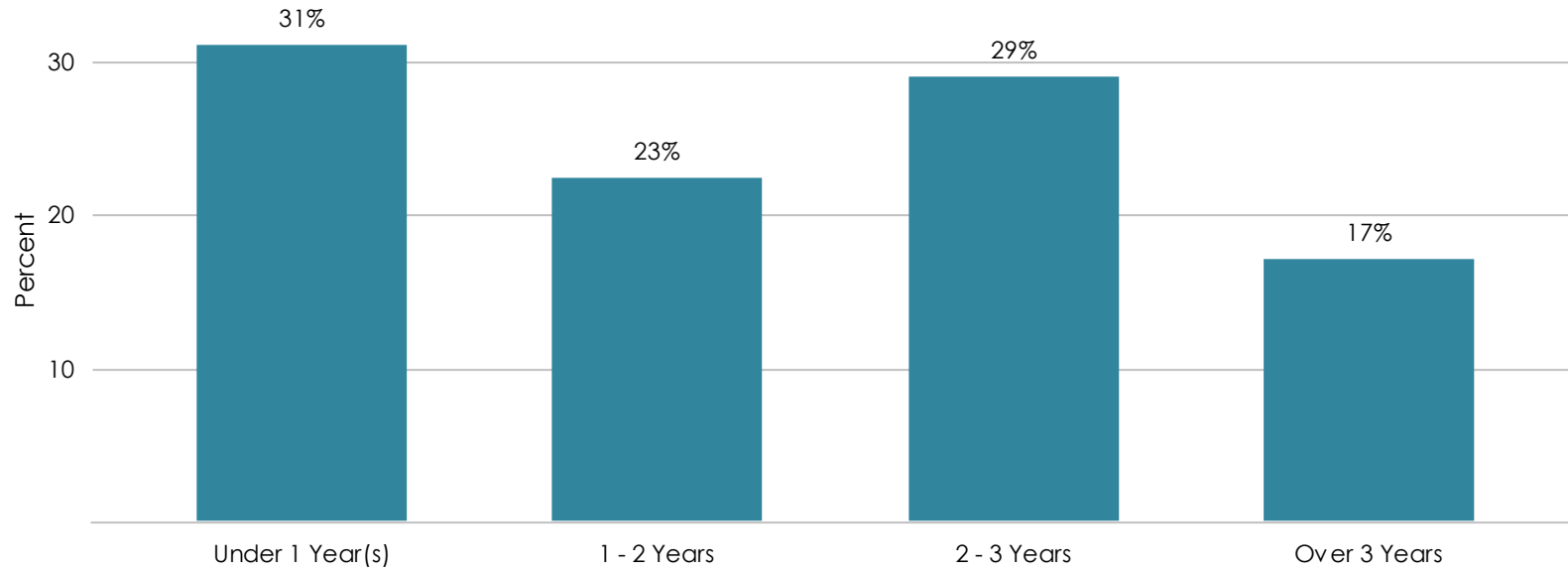


Source: Intercontinental Exchange Returns are calculated gross of fees.

# Our Portfolio View

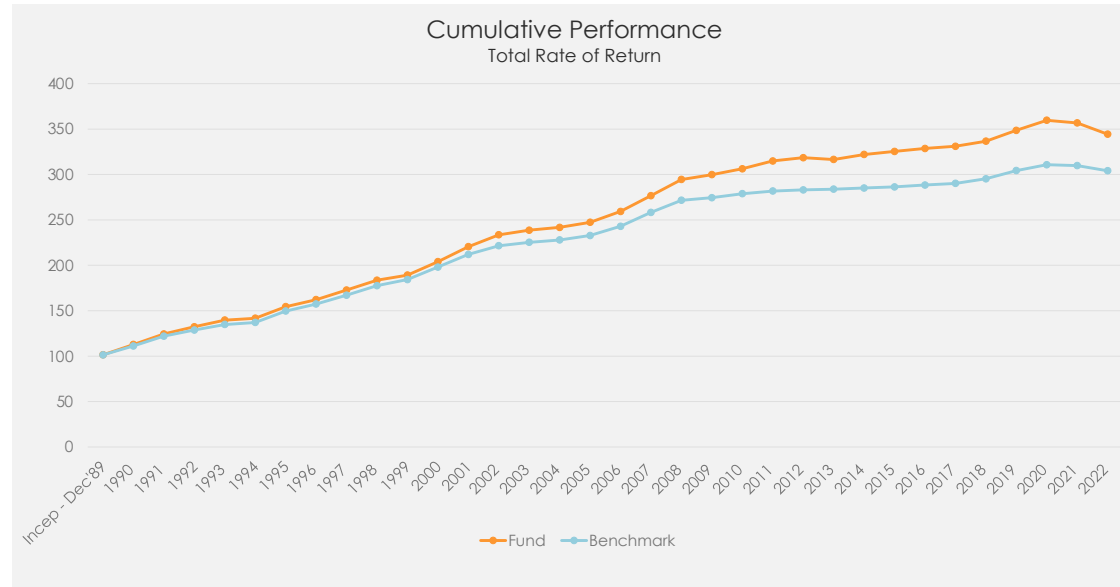


## MATURITY DISTRIBUTION



Maturity	Market Value	Percent
Under 1 Year(s)	\$ 239,192,435	31.1%
1 - 2 Years	173,018,993	22.5
2 - 3 Years	223,695,246	29.1
Over 3 Years	132,482,880	17.2
<b>Total</b>	<b>\$ 768,389,554</b>	<b>100.0%</b>
Effective Average Maturity of Portfolio:		1.69 yrs

# Performance



## Investment Performance Through June 30, 2022

	Nov. '89-1999	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	June 30, 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	-3.56	244.8
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	-1.84	204.1
<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	1.03	---
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	1.49	---
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	0.16	139.7
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	-2.84	236.9
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	-2.85	255.6

\*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 March 31, 2022 To June 30, 2022

Security	Trade Date	Settle Date	Quantity	Purchases	Price	Cost
<b>Purchases</b>						
Bank of New York Mellon 3.35% 04/25/25	5/23/22	5/25/22	5,000,000	\$5,010,243.06	99.94	\$4,996,750.00
J P Morgan Chase 3.13% 01/23/25	5/23/22	5/25/22	7,000,000	\$7,028,351.94	99.35	\$6,954,220.00
U S Bancorp 1.45% 05/12/25	5/24/22	5/26/22	4,000,000	\$3,793,495.56	94.78	\$3,791,240.00
US Bancorp 2.40% 07/30/24	5/24/22	5/26/22	2,047,000	\$2,034,499.65	98.62	\$2,018,669.52
J P Morgan Chase 3.13% 01/23/25	6/29/22	7/1/22	3,000,000	\$2,996,865.83	98.52	\$2,955,720.00
John Deere Capital Corp 3.40% 06/06/25	6/29/22	7/1/22	5,100,000	\$5,073,995.67	99.25	\$5,061,954.00
Toyota Mtr Cr Corp 2.50% 03/22/24	6/29/22	7/1/22	7,000,000	\$6,931,995.00	98.34	\$6,883,870.00
TRUIST FINL CORP 2.85% 10/26/24	6/29/22	7/1/22	6,000,000	\$5,900,435.00	97.83	\$5,869,560.00
U S Treasury Note 2.88% 04/30/25	6/30/22	7/5/22	20,000,000	\$20,036,718.76	99.67	\$19,933,593.76
<b>Total Purchases</b>				\$58,806,600.47		\$58,465,577.28

# Appraisal Summary

*Investment Portfolio Review*  
*Period Ending June 30, 2022*

	<u>Market Value</u>	<u>Percent</u>	<u>Income</u>
Liquid Reserves	40,694,541	5.3	520,890
<b>Liquid</b>	<b>40,694,541</b>	<b>5.3</b>	<b>520,890</b>
U.S. Treasuries	224,604,498	29.2	1,953,563
U.S. Government Agencies	421,237,200	54.7	4,397,350
Corporate Bonds	83,804,654	10.9	1,614,628
<b>Fixed</b>	<b>729,646,352</b>	<b>94.7</b>	<b>7,965,541</b>
<b>Total Market Value</b>	<b>770,340,893</b>	<b>100.0%</b>	<b>8,486,431</b>

# Portfolio Appraisal

Investment Portfolio Review  
Period Ending June 30, 2022

Par / Shares	Description	Rate	Maturity	Cost	Price	Market Value
311,003	Federated Govt Oblg Fund	1.280		311,003	100.000	311,003
25,269,364	Money Market	1.280		25,269,364	100.000	25,269,364
296,580	PNC Bank Mny Mkt Sav	1.280		296,580	100.000	296,580
14,817,594	STAR Ohio	1.280		14,817,594	100.000	14,817,594
<b>40,694,541</b>	<b>Liquid Reserves</b>			<b>40,694,541</b>		<b>40,694,541</b>
<b>40,694,541</b>	<b>Liquid</b>			<b>40,694,541</b>		<b>40,694,541</b>
10,000,000	U S Treasury Note	0.125	1/31/2023	9,994,531	98.590	9,858,980
10,250,000	U S Treasury Note	1.375	6/30/2023	10,236,387	98.469	10,093,052
15,500,000	U S Treasury Note	1.250	7/31/2023	15,476,992	98.195	15,220,272
8,500,000	U S Treasury Note	0.250	3/15/2024	8,432,266	95.481	8,115,843
10,500,000	U S Treasury Note	0.375	7/15/2024	10,495,078	94.852	9,959,418
11,000,000	U S Treasury Note	0.750	11/15/2024	10,999,570	94.820	10,430,233
20,000,000	U S Treasury Note	2.875	4/30/2025	19,933,594	99.570	19,914,060
19,200,000	U S Treasury Notes	0.125	11/30/2022	19,164,422	99.082	19,023,744
35,400,000	U S Treasury Notes	0.500	3/15/2023	35,319,813	98.445	34,849,636
15,000,000	U S Treasury Notes	0.250	6/15/2023	14,986,680	97.457	14,618,550
17,000,000	U S Treasury Notes	0.250	11/15/2023	16,985,977	96.367	16,382,424
16,000,000	U S Treasury Notes	0.375	4/15/2024	15,980,938	95.461	15,273,744
16,500,000	U S Treasury Notes	0.250	5/15/2024	16,463,906	95.043	15,682,095
25,300,000	U S Treasury Notes	2.000	5/31/2024	25,280,234	98.191	24,842,424
<b>230,150,000</b>	<b>U.S. Bonds/Notes</b>			<b>229,750,387</b>		<b>224,264,474</b>
<b>230,150,000</b>	<b>U.S. Treasuries</b>			<b>229,750,387</b>		<b>224,264,474</b>
10,000,000	Fannie Mae	2.500	2/05/2024	9,999,900	99.291	9,929,060
10,000,000	Fannie Mae	1.750	7/02/2024	9,914,000	97.741	9,774,060
10,000,000	Fannie Mae	1.625	10/15/2024	9,981,000	96.904	9,690,420
15,000,000	Fannie Mae ( callable )	0.500	8/14/2025	14,973,000	92.418	13,862,655
10,000,000	Federal Farm Credit Bank	1.500	9/06/2022	9,998,800	99.940	9,994,010
15,000,000	Federal Farm Credit Bank	1.850	9/20/2022	14,961,300	100.071	15,010,620
9,300,000	Federal Farm Credit Bank	0.350	6/08/2023	9,264,801	97.688	9,084,965
10,000,000	Federal Farm Credit Bank	1.600	8/14/2023	9,980,300	98.505	9,850,480



# Portfolio Appraisal

*Investment Portfolio Review*  
*Period Ending June 30, 2022*

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
15,000,000	Federal Farm Credit Bank	1.700	9/25/2023	14,994,150	98.550	14,782,545
10,000,000	Federal Farm Credit Bank	1.625	10/23/2023	9,994,200	98.380	9,837,960
10,000,000	Federal Farm Credit Bank	1.600	11/01/2023	9,990,300	98.315	9,831,460
10,000,000	Federal Farm Credit Bank	1.450	9/05/2024	9,991,500	96.880	9,688,020
19,000,000	Federal Farm Credit Bank	1.600	9/17/2024	18,833,370	97.139	18,456,429
10,000,000	Federal Farm Credit Bank	1.500	10/16/2024	9,967,900	96.775	9,677,540
5,000,000	Federal Farm Credit Bank (callable)	0.400	10/15/2024	4,994,500	94.036	4,701,800
10,000,000	Federal Farm Credit Bank (callable)	0.670	8/04/2025	10,000,000	92.734	9,273,380
10,000,000	Federal Farm Credit Bank (callable)	0.680	8/04/2025	10,000,000	92.553	9,255,300
7,000,000	Federal Farm Credit Bank (callable)	0.540	11/03/2025	6,989,500	91.210	6,384,679
15,000,000	Federal Farm Credit Bank (callable)	0.560	12/01/2025	15,000,000	91.744	13,761,540
15,000,000	Federal Farm Credit Bank (callable)	0.500	12/23/2025	15,000,000	91.255	13,688,190
10,000,000	Federal Farm Credit Bank (callable)	0.600	12/09/2025	10,000,000	91.856	9,185,570
20,000,000	Federal Home Loan Bank	1.500	8/15/2024	19,984,600	96.848	19,369,560
12,000,000	Federal Home Loan Bank (callable)	0.520	9/30/2024	12,000,000	94.646	11,357,520
12,000,000	Federal Home Loan Bank (callable)	0.625	12/30/2024	12,000,000	94.655	11,358,624
15,000,000	Federal Home Loan Bank (callable)	0.680	6/30/2025	15,000,000	92.787	13,918,035
15,000,000	Federal Home Loan Bank (callable)	0.600	12/15/2025	15,000,000	91.620	13,742,925
15,000,000	Federal Home Loan Bank (callable)	0.520	1/28/2026	15,000,000	91.905	13,785,810
6,000,000	Federal Home Loan Bank (callable)	0.600	2/18/2026	6,000,000	91.823	5,509,350
20,000,000	Federal Home Loan Bank (callable)	0.875	3/17/2026	20,000,000	92.769	18,553,760
10,000,000	FFCB (callable)	0.610	5/23/2025	9,990,000	92.906	9,290,600
10,500,000	FFCB (callable)	0.650	6/09/2025	10,492,125	92.990	9,763,961
10,000,000	FFCB (callable)	0.740	6/30/2025	10,000,000	93.061	9,306,050
10,000,000	FHLB (callable)	0.500	7/29/2024	10,000,000	95.351	9,535,140
7,200,000	FHLB (callable)	1.000	4/29/2026	7,200,000	92.985	6,694,913
11,000,000	FHLB (callable)	0.475	8/23/2024	11,000,000	94.364	10,380,073
8,000,000	FHLB (callable)	0.550	12/17/2024	7,997,200	94.587	7,566,960
7,500,000	FHLB (callable)	0.570	3/27/2025	7,500,000	93.495	7,012,095
8,500,000	FHLB (callable)	0.810	3/27/2026	8,500,000	92.440	7,857,409
10,000,000	Freddie Mac (callable)	0.750	4/30/2025	10,000,000	93.505	9,350,500
<b>443,000,000</b>	<b>U.S. Agencies</b>			<b>442,492,446</b>		<b>420,073,967</b>

# Portfolio Appraisal

*Investment Portfolio Review*  
*Period Ending June 30, 2022*

Par / Shares	Description	Rate	Maturity	Cost	Price	Market Value
<b>443,000,000</b>	<b>U.S. Agencies &amp; Related</b>			<b>442,492,446</b>		<b>420,073,967</b>
5,000,000	Bank of New York Mellon	1.950	8/23/2022	4,998,400	99.944	4,997,185
5,000,000	Bank of New York Mellon	3.350	4/25/2025	4,996,750	98.855	4,942,770
10,000,000	J P Morgan Chase	3.125	1/23/2025	9,909,940	98.534	9,853,380
4,000,000	KeyBank NA	1.250	3/10/2023	3,998,120	98.580	3,943,216
6,000,000	TRUIST FINL CORP	2.850	10/26/2024	5,869,560	98.026	5,881,572
4,000,000	U S Bancorp	1.450	5/12/2025	3,791,240	93.712	3,748,464
2,047,000	US Bancorp	2.400	7/30/2024	2,018,670	97.541	1,996,666
<b>36,047,000</b>	<b>Financial</b>			<b>35,582,680</b>		<b>35,363,253</b>
5,000,000	Caterpillar Financial SE	0.450	9/14/2023	4,996,600	96.971	4,848,530
5,000,000	Caterpillar Finl Svcs	0.450	5/17/2024	4,994,800	94.731	4,736,565
5,000,000	Disney (Walt) Co	1.650	9/01/2022	4,989,150	99.884	4,994,195
5,000,000	Exxon Mobil Corp	1.902	8/16/2022	5,007,860	99.868	4,993,410
5,000,000	Intuit Inc	0.650	7/15/2023	4,998,800	97.155	4,857,740
5,100,000	John Deere Capital Corp	3.400	6/06/2025	5,061,954	99.554	5,077,254
3,000,000	Paccar Financial Corp	2.000	9/26/2022	3,001,800	99.832	2,994,948
2,000,000	Paccar Financial Corp	0.350	8/11/2023	1,997,442	96.777	1,935,540
7,000,000	Toyota Mtr Cr Corp	2.500	3/22/2024	6,883,870	98.462	6,892,312
7,000,000	Unitedhealth Group Inc.	0.550	5/15/2024	6,991,870	95.183	6,662,824
<b>49,100,000</b>	<b>Industrial</b>			<b>48,924,146</b>		<b>47,993,318</b>
<b>85,147,000</b>	<b>Corporate Bonds</b>			<b>84,506,826</b>		<b>83,356,571</b>
<b>758,297,000</b>	<b>Fixed</b>			<b>756,749,659</b>		<b>727,695,013</b>
<b>798,991,541</b>	<b>Total Portfolio</b>			<b>797,444,200</b>		<b>768,389,554</b>

Boyd Watterson Asset Management, LLC is a registered investment adviser with the Securities Exchange Commission (SEC) under the Investment Advisers Act of 1940. Registration with the SEC does not imply a certain level of skill or training. The opinions expressed in this presentation are those of Boyd Watterson Asset Management, LLC and were provided in response to quarterly reporting requests. The material presented herein has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed.

Past performance does not guarantee future results. Opinions and forecasts are all subject to change at any time, based on market and other conditions and should not be construed as a recommendation of any specific security. Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. Any forecast, projection, or prediction of the market, the economy, economic trends, and fixed-income markets are based upon current opinion as of the date of issue, and are also subject to change. Opinions and data presented are not necessarily indicative of future events or expected performance. Boyd Watterson Asset Management, LLC cannot and does not claim to be able to accurately predict the future investment performance of any individual security or of any asset class. There is no assurance that the investment process will consistently lead to successful results. The investment return and principal value of an investment will fluctuate, thus an investor's shares, or units, when redeemed may be worth more or less than their original cost.

If posted on a public forum, website, or platform, by the intended audience for which the presentation was originally intended, the presentation shall not be relied upon as an advertisement or a solicitation to buy or sell securities.