

# A VIEW FROM THE TOP – PERSPECTIVES WHEN INTEREST RATES PEAK



Market cycles have a way of feeling permanent. Bull markets breed complacency, while bear markets feel endless. The reality is that bear markets have proven to be much shorter in duration than they feel. In today's fixed income environment, there are two trends that feel semi-permanent: higher rates and rising defaults.

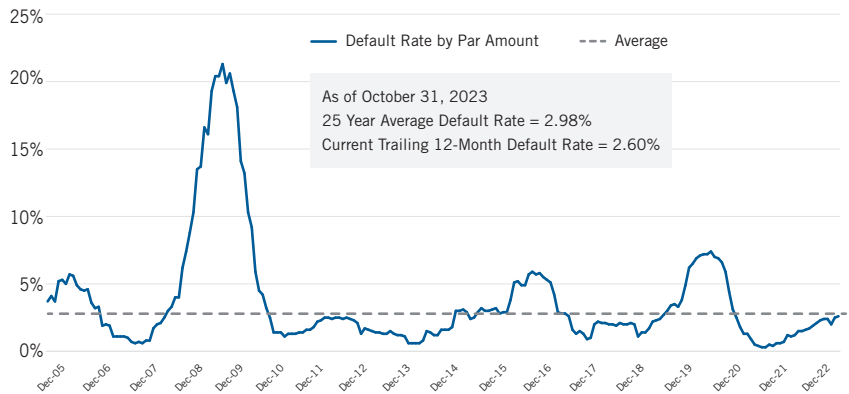
First, let's look at the current default rate in the context of history:

Higher rates have two effects. First, they make financing more *expensive*, and second, they make it more *difficult*, and in some cases, impossible, for businesses and individuals to secure. Higher interest rates cause default rates to increase, as debt financing becomes more expensive, although less the case during the most recent peak in defaults due to the extraordinary amount of unconventional monetary policies the Federal Reserve Bank implemented during COVID. However, we are seeing this aberration begin to normalize as default rates tick upward and approach historical averages. We believe this is a sign that the market has worked through much of the COVID-related default deferral issues.

Moving onto the effective Federal Funds rate, we have seen three peaks since the turn of the century. As seen in the chart to the right, once each of these rising rate environments found its apex, it was followed by stable or declining interest rate levels shortly thereafter.

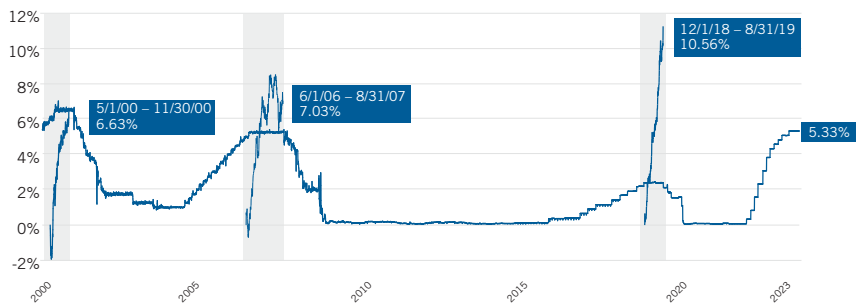
It's important to note that these time periods have historically been constructive for investment grade corporate credit, as evidenced by the performance of the Bloomberg US Corporate Index.

## HISTORIC DEFAULT RATES



Past performance is not indicative of future results. As of 11/30/23. Source: YCharts. High Yield rated USD bonds from U.S. corporate issuers

## EFFECTIVE FEDERAL FUNDS RATE (PERCENT)



Past performance is not indicative of future results. As of 11/30/23. Source: YCharts. Performance is for the Bloomberg US Corporate Index

**The bottom line: The direction of rates and defaults is uncertain, but if history is an indicator, fixed income has an opportunity to deliver in a higher for longer period which has historically provided attractive performance.**

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**INDEX DEFINITION**

The **Bloomberg US Corporate Index** covers performance for U.S. corporate bonds. This index serves as an important benchmark for portfolios that include exposure to investment grade corporate bonds. The index is calculated on a total return basis. The index is unmanaged, returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

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