Fixed-income market update

Gene Tannuzzo
Global Head of Fixed Income

I think 2023 will be a year where the market transitions from being focused on interest rate volatility to being focused on credit volatility. Last year was all about interest rates rising very quickly because the Fed was adjusting its reaction function. That has now happened, and we've seen volatility manifest itself in credit markets starting in the first quarter in the banking sector.

We think throughout the course of the year that volatility will permeate through other industries and credit selection is going to be absolutely key to performance.

The diversification benefit of bonds has dramatically changed in 2023. Importantly, we've seen that in environments of risk aversion, when equity prices are going down and credit sensitive sectors of the bond market are performing poorly, high quality, fixed income is doing well and Treasuries are a strong diversifier to other risk assets. That's important and has been a reliable diversification benefit of bonds over time, but it was sorely lacking in 2022. We've seen that return in 2023 and from a portfolio construction standpoint and a diversification standpoint, we think that's incredibly important.

We think opportunities are vast in 2023, but investors need to be selective. Credit risk will be paramount. We do think in the riskiest sectors of the market, defaults will increase as economic growth slows. However, yields are higher. That cushion for volatility is substantial and we think high quality credit is very, very attractive in this environment. That would include areas like investment-grade corporate bonds or investment-grade mortgage-backed securities.

There are risks associated with fixed-income investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

The views expressed are as of April 2023, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

Securities products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

© 2023 Columbia Management Investment Advisers, LLC. All rights reserved. 5654309