



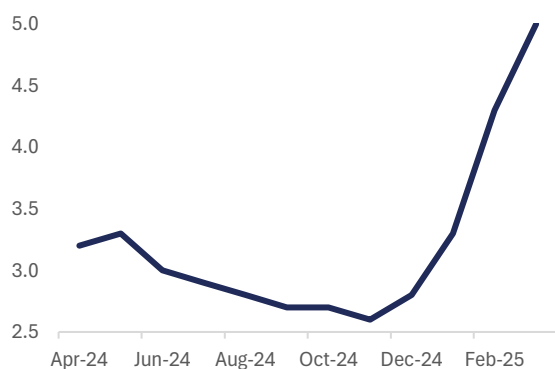
April 24, 2025

When certainty is scarce...

Fixed income investors value certainty above all else. Certainty brings confidence in the payment of coupon and return of principal. But today, certainty is scarce. In that environment, RBA has positioned away from credit risk and toward higher-quality, less risky assets.

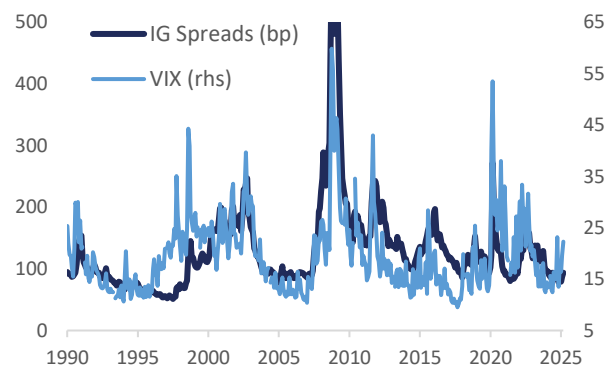
Back in January, we wrote that at some point in 2025, markets would begin to resemble 2022—and that investors needed to prepare by maintaining a short duration bias with limited credit risk. We didn't expect that period to arrive so quickly.

Chart 1: UMich 1y Inflation expectations have skyrocketed



Source: Bloomberg

Chart 2: Credit investors want certainty, not volatility



Source: Bloomberg

Even before the spike in geopolitical risk, the U.S. profit cycle appeared to be peaking sometime in mid-2025. With the added uncertainty from trade tensions, we now believe that peak is more imminent. Curve steepeners have performed well, yields have increased, and credit risk is beginning to widen. At the same time, inflation remains too elevated to allow the Fed to move quickly toward its 2% target.

Given that backdrop, we believe agency mortgage-backed securities and Treasuries currently offer the best risk-adjusted returns in fixed income.

While macro data—particularly the labor market—does not yet point to an imminent recession, risk premiums remain tight. That leaves investors exposed to what we see as an unattractive carry trade: limited upside and meaningful downside. Rather than chase risk, we prefer to maintain a high-quality portfolio near benchmark duration and wait for better entry points in credit as spreads widen.

Michael Contopoulos

Deputy Chief Investment Officer



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