LOM Fixed Income Manager's Report | Q2 2023

Fund Information

Fund Manager
LOM Asset Management Ltd.

Portfolio Managers
Bryan Dooley, CFA

Domiciled
Bermuda

Exchange
Bermuda Stock Exchange

Inception Date
03/13/2000

Dealing Terms
Friday (5:30 AST)

Settlement Terms
Trade +2

ID ISIN
BMG556251343

Bloomberg Ticker
LOMFIXD BH

Fund Size
$67,230,747

Management Fee
1.00%

Administration Costs
0.24%

Sales Fee
May be applicable

Over the half quarter of 2023, the LOM Fixed Income Fund gained 2.60% as higher yields on new securities offset lower principal values impacted by rising US interest rates across the curve.

The US experienced a deceleration in gross domestic product (GDP) growth during the first half of 2023, primarily influenced by rising interest rates and inflationary pressures on the economy. In the first quarter, the GDP grew by 1.8%, and projections indicate a modest 1.3% growth for the entire year of 2023. While the economy remains somewhat weak, concerns regarding an imminent recession have diminished since the beginning of the year. This is attributed to the relative stability of the housing market and the gradual recovery of demand for various goods and services which were previously impacted by the pandemic.

In the fixed income markets, the yield curve experienced an upward shift throughout the second quarter. Initially, the short-term end of the curve rose due to concerns surrounding a technical default related to the debt ceiling, and subsequently due to expectations of a more hawkish stance from the Federal Reserve.

The yield on the two-year Treasury note, which is particularly sensitive to Fed Funds rate expectations, started the quarter at 4.03% and concluded at 4.90%. Likewise, the 10-year U.S. Treasury note, often employed as a benchmark for mortgage pricing, began the quarter at 3.47% and concluded at 3.84%, indicating a 37 basis point increase in yield. Although the outlook for growth remains restrained in the face of tightening financial conditions, the Federal Reserve proceeded with another 25-basis point interest rate hike during its May meeting before pausing in June. The current target range for the Fed Funds rate stands at 5.00-5.25%.

The long-term end of the yield curve was supported by a decline in the inflation rate. Over the past year, inflation dropped to 4.9%, slightly below the previous month's figure but still near a multi-decade high. Multiple indicators suggest that U.S. inflation surpasses the Federal Reserve's 2% target, which has been cited as the primary reason for the central bank's ongoing monetary policy tightening. Inflation has proven persistent due to the tightness of the labor market and the ongoing strong demand for core services.

In this environment, we continue to focus on short to medium term investment grade bonds on an issue specific basis.

Fixed Income Fund Performance through 30 June 2023

	Annualized Returns			
	YTD	3 Year	5 Year	10 Year
LOM Fixed Income Fund	+2.60%	-0.91%	-0.08%	1.10%
ICE BofA US Cop/Govt 1-5 year	+1.21%	-1.52%	+1.17%	1.18%