Quarterly commentary | Q1 2024

Janus Henderson INVESTORS

SHORT DURATION FIXED INCOME STRATEGY

At a glance

Performance

The Portfolio returned 1.02% (gross) and the Bloomberg 1-3 Year U.S. Government/Credit Index returned 0.42%.

Contributors/detractors

Our overweight allocation to credit spread risk contributed, as spreads broadly tightened during the quarter. Yield curve positioning detracted somewhat as rates rose.

Outlook

In our view, declining inflation and a dovish central bank, coupled with a resilient economy and jobs market, portend a favorable multiyear outlook for fixed income.

Portfolio management

Greg Wilensky, CFA

Michael Keough

Investment environment

- Following a strong positive return in the fourth quarter of 2023, the Bloomberg 1-3 Year US Government/Credit Index registered a positive return of 0.42% in the first quarter of 2024. Credit sectors generated strong excess returns versus Treasuries.
- Investors continued to balance solid economic data and corporate earnings with the expected timing and extent of rate cuts. The trend of declining inflation that began in 2023 appears set to continue in 2024, but there may be some bumps in the road, as we witnessed during the quarter.
- At its March meeting, the Federal Reserve (Fed) elected to leave rates steady at 5.25% to 5.50%. However, the central bank remained firmly committed to its dovish pivot by projecting three rate cuts for 2024, while also suggesting that a tapering of quantitative tightening is in the cards fairly soon.
- The yield on the 2-year U.S. Treasury ended the quarter at 4.62% relative to 4.25% at the end of December. Corporate investment-grade credit spreads tightened slightly to 90 basis points (bps), while high-yield credit spreads tightened 24 bps to 299 bps, as investors increased their risk appetite on strong corporate earnings and outlooks.

Portfolio review

Our focus is to generate moderate income from credit spread sectors while limiting drawdowns. We seek to do this by constructing the portfolio with credit risk and a modest amount of interest rate risk over the cycle.

The key driver of our outperformance during the quarter was our general overweight to spread risk. Spread sectors broadly outperformed on economic resilience and good news on the labor market front, with labor demand moderating and labor supply increasing.

Our overweight to securitized credit contributed, as these sectors broadly outperformed corporates on a risk-adjusted basis. While securitized spreads have normalized somewhat versus corporates, they continue to look attractive on a relative value basis. As such, we have maintained our overweight allocation in the space.

Corporate credit spreads narrowed further to lows not seen for over 24 months – a sign that the corporate credit market has firmly embraced the soft landing. High yield continued to outperform on the back of strong demand-supply dynamics, coupled with increased risk appetite from investors, as the economy continues to show strength. We increased our allocation to corporates during the quarter, as incoming economic data, earnings, and strong technicals supported a favorable outlook for the sector.

With respect to yield curve positioning, we entered the period with a meaningfully reduced duration overweight after aggressively trimming duration, as we believed rates may have rallied too far in December 2023. As anticipated, rate-cut expectations pulled back, and we took advantage of higher yields to add interest rate risk. While our yield curve positioning detracted, we believe rates are likely to fall in 2024 due to a dovish Fed and declining inflation. We also like the defensive characteristics of higher-duration exposure in the event the economy cools more quickly than expected.

As credit spread products delivered strong excess returns in the quarter, valuations have priced in a lot of the more favorable outlook. Nevertheless, we continue to believe the yields available across fixed income look attractive and may continue to support investor demand.

Manager outlook

What a difference a year can make. At the start of 2023, inflation was running at 6.5%, predictions of a recession were rife, and the Fed was maintaining its hawkish stance. The central bank would hike another four times in the first half of 2023. Fast-forward to the first quarter of 2024, inflation is running at an average of 3.3%, and the Fed is forecasting three rate cuts in 2024 and has signaled its intent to taper its quantitative tightening program. Economic growth, jobs growth, and corporate earnings have continued to surprise on the upside. In our view, this is all broadly positive for fixed income markets.

Market participants are grappling with questions of when and by how much the Fed will cut rates. This has resulted in some rate volatility and an uptick in yields as the market reprices to align rate-cut expectations with the Fed's own projections. Notwithstanding the tug of war taking place in rates markets in the short term, we believe the current monetary and economic environment bodes well for a favorable multiyear outlook for fixed income returns. We expect that the recent strong demand for the fixed income asset class should continue – and potentially accelerate, once the Fed starts cutting rates – as investors aim to lock in attractive yields and benefit from the diversification that bonds may bring to multi-asset portfolios.

While the outlook has continued to improve and a soft landing appears to be the most likely outcome, we do expect the economy to gradually slow to below-trend growth. Yet we take comfort that the Fed's dual mandate is coming back into balance, enabling the Fed to react to any unexpected economic weakness with aggressive stimulative measures, because inflation has moderated.

We maintain our focus on consumer health, the job market outlook, and how corporations fare in this environment. We favor an overweight to both credit spread risk and interest rate risk, as the economy remains resilient and the Fed has firmly established its dovish stance. Further, we continue to favor securitized sectors for their relative value, as well as higher-rated assets for their defensiveness, in case we witness economic softening.

Short Duration Fixed Income Strategy (as of 03/31/24)

Performance - USD (%)

Returns	Cumulative 1Q24	Cumulative YTD	Cumulative 1 Yr	Annualized 3 Yr	Annualized 5 Yr	Annualized 10 Yr	Annualized Since Inception (01/01/93)
Composite (gross)	1.02	1.02	5.38	0.87	2.16	1.96	4.10
Composite (net)	0.88	0.88	4.80	0.32	1.60	1.44	3.55
Bloomberg 1-3 Year U.S. Government/Credit Index	0.42	0.42	3.49	0.25	1.35	1.29	3.40

Past performance cannot guarantee future results. Investing involves risk, including the possible loss of principal and fluctuation of value. Returns greater than one year are annualized. Returns are expressed in U.S. dollars unless otherwise stated. Composite returns are net of transaction costs and gross of non-reclaimable withholding taxes (if any and unless otherwise noted), and reflect the reinvestment of dividends and other earnings.

Portfolio

Top Holdings (%)	Fund
United States Treasury Note/Bond 4.63 06/30/2025	8.29
United States Treasury Note/Bond 4.25 12/31/2024	2.14
Centene Corp 4.25 12/15/2027	1.80
CF Hippolyta Issuer LLC 5.97 08/15/2062	1.67
Danske Bank A/S 6.47 01/09/2026	0.92
JPMorgan Chase & Co 4.08 04/26/2026	0.92
Bank of America NA 5.53 08/18/2026	0.89
Charles Schwab Corp 5.88 08/24/2026	0.88
Celanese US Holdings LLC 6.35 11/15/2028	0.87
PNC Financial Services Group Inc 6.62 10/20/2027	0.83
Total	**19.21**

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Definitions

Basis point (bp) equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.
Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.
A yield curve plots the yields (interest rate) of bonds with equal credit quality but differing maturity dates. Typically bonds with longer maturities have higher yields.
Credit spread is the difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers, and narrowing indicate improving.
Securitized products, such as mortgage- and asset-backed securities, are more sensitive to interest rate changes, have extension and prepayment risk, and are subject to more credit, valuation and liquidity risk than other fixed income securities.
Any risk management process discussed includes an effort to monitor and manage risk, which should not be confused with and does not imply low risk or the ability to control certain risk factors.
2-Year Treasury yield is the interest rate on U.S. Treasury bonds that will mature two years from the date of purchase.
Quantitative tightening (QT) is a government monetary policy occasionally used to decrease the money supply by either selling government securities or letting them mature and removing them from its cash balances.
Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.
Monetary policy refers to the policies of a central bank, aimed at influencing the level of inflation and growth in an economy. It includes controlling interest rates and the supply of money.

To receive a complete list and description of composites and/or a presentation that complies with the requirements of the GIPS® standards, please visit janushenderson.com/us-institutional to contact a Janus Henderson institutional team representative.

The gross performance results presented do not reflect the deduction of investment advisory fees. Returns will be reduced by such advisory fees and other expenses as described in the individual contract and, where applicable, Form ADV Part 2A.

Net performance results do not reflect the deduction of investment advisory fees actually charged to the accounts in the composite but do reflect the deduction of model investment advisory fees based on the maximum fee rate in effect for the respective time period, adjusted for performance-based fees where applicable. Actual advisory fees may vary among clients invested in the strategy and may be higher or lower than model fees. Returns for each client will be reduced by such fees and expenses as described in the individual contract and, where applicable, in Form ADV Part 2A.

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Short Duration Bond Composite, benchmarked to the Bloomberg US 1-3 Yr Government/Credit Index, includes portfolios that seek as high a level of current income as is consistent with preservation of capital. The portfolios will maintain a weighted average portfolio duration between 1 and 3 years under normal circumstances and may invest in high yield/high risk bonds up to 35%. Effective January 1, 2005 the composite definition was changed to include only proprietary mutual funds and exclude sub-advised pooled funds. Effective January 1, 2009 the composite definition was expanded to also include sub-advised pooled funds and separately managed institutional accounts. The composite was created in January 2003.

Information relating to portfolio holdings is based on the representative account in the composite, which reflects the typical portfolio management style of the investment strategy. Other accounts in the strategy may vary due to asset size, client guidelines and other factors.

Portfolio holdings are as of the date indicated, and are subject to change. This material should not be construed as recommendation to buy or sell any security.

Investing involves risk, including the possible loss of principal and fluctuation of value.

Discussion is based on performance gross of fees.

Bloomberg 1-3 Year U.S. Government/Credit Index measures Treasuries, government-related issues and corporates with maturity between 1-3 years.

Index returns are provided to represent the investment environment existing during the periods shown. The index is fully invested, including the reinvestment of dividends and capital gains. Index returns do not include any transaction costs, management fees or other costs, and are gross of non-reclaimable withholding taxes, if any and unless otherwise noted.

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