Bond Fund Commentary

Market Overview

Third-quarter economic growth was notably slower than the rapid pace experienced during the first two quarters of 2021 and much lower than consensus forecasted at the beginning of the period. While growth slowed, inflation continued its trend higher during the quarter as commodity prices, led by energy, rose sharply. These two trends (slower growth and higher inflation) seemed to offset each other during the quarter as fixed income markets exhibited very little volatility. Interest rates across the curve ended the quarter barely changed from their starting levels, and returns in many fixed income sectors were close to zero.

Positioning the Bond Fund

Portfolio composition is subject to change.

With inflation at elevated levels and economic growth expected to rebound in the fourth quarter, we believe the most likely path for interest rates should be higher. Given our expectation of higher rates, we are maintaining a short duration position versus our benchmark.

Markets are currently quite liquid and seem likely to stay that way for the foreseeable future. In this type of environment, we believe it makes sense to take liquidity risk in portfolios. This is the reason we continue to hold a large underweight to government sectors versus the benchmark.

Corporate spreads remain tight and opportunities in the space have become more difficult to find. We continue to like the taxable municipal sector as a corporate proxy.

In summary,

- Short duration
- Underweight government sectors
- Overweight taxable municipals

Why Should Investors Consider Investing in This Fund?

The Fund maintains a higher-quality bias than many of its peers. Also, the Fund is currently below benchmark duration. If interest rates move higher, this fund is positioned to outperform.

With benchmarks so heavily weighted to lower-yielding government sectors, we continue to believe that actively managed fixed income is preferable to passive strategies.

CAVANAL HILL® Funds

Disclosures

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Investment Risks

Fixed income securities are subject to interest rate risks. the principal value of a bond falls when interest rates rise and rise when interest rates fall. During periods of rising interest rates, the value of a bond investment is at greater risk than during periods of stable or falling rates. Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in prices, especially for longer-term issues and in environments of changing interest rates.