

# Short Duration Investment Grade Strategy

DIAMOND HILL  
A First Eagle Investments Company

As of 31 Mar 2026

**Mark Jackson, CFA**  
Portfolio Manager

**Henry Song, CFA**  
Portfolio Manager

**Douglas Gimple**  
Senior Portfolio Specialist

## Market review and outlook

The Bloomberg 1-3 Year Government/Credit Index returned 0.28% in Q1, its lowest quarterly return since Q4 2024 (-0.02%). Through the first two months of the year, the index returned 0.75% as economic data remained broadly resilient despite concerns around the February sell-off in software stocks, a key tariff decision by the Supreme Court and the growing drumbeat of war in the Middle East. The US and Israel launched combat operations against Iran on February 28, and the markets spent most of March reeling from the ongoing conflict, resulting in Brent crude oil experiencing its biggest quarterly increase since the Gulf War in 1990. While one normally thinks of a flight-to-quality trade as a rally in Treasury yields as investors move away from risk assets to safer alternatives, this was not the case in March as rates pushed higher across the curve. The Fed held rates steady at the March 18 meeting and avoided any kind of hints about the future path of rates. Despite concerns around the impact of higher energy prices on inflation due to the conflict, no participants viewed a 2026 hike as appropriate at this time. At his press conference, Chairman Jerome Powell alleviated some concern around the leadership of the Federal Reserve, stating that he would remain as chair pro tempore until his replacement is confirmed.

## Updates by sector

### *Treasury*

The entire Treasury yield curve pushed higher in Q1, with most of the shift taking place in March after combat operations began in the Middle East. The 2-year Treasury yield climbed 41.8 basis points (bps) in March, marking its biggest monthly move since October 2024 when ongoing strength in economic news had investors reconsidering rate cut expectations. The dramatic shift in March was more than enough to offset some of the compression in yield during the first two months of the year, resulting in an increase of 32 bps during Q1. But the trend higher impacted the entire curve, with the 10-year Treasury yield increasing by 15 bps and the 30-year by 7 bps during Q1, resulting in the worst quarterly performance in the Treasury sector (-0.04%) since Q4 2024 (-3.14%).

Market expectations for action from the Federal Reserve ranged from roughly 62.5 bps of easing by year-end 2026 in late February to 12.5 bps of tightening by year end in late March, before settling at the end of Q1 with a slight chance of a rate cut by year end.

### *Corporate*

The investment-grade corporate market, as tracked by the Bloomberg US Corporate 1-3 Year Bond Index, posted its weakest quarterly return (+0.30%) since Q4 2024 (+0.19%). Short-end investment-grade corporate spread levels reached their lowest point since November 2024 in late January (43.7 bps) before reversing course and pushing higher through the final two months of the quarter. As concerns surrounding a potential conflict in the Middle East ramped up, so did short-end investment-grade spreads, reaching as high as 65.6 bps mid-March before finishing the quarter at 60.5 bps, as investors moved away from risk assets.

### *Securitized*

The securitized sector delivered positive returns in Q1, bucking the trend of the other major sectors and rising 0.40%. The sector followed a similar pattern to the rest of the market, with decent performance during the first two months of the year (+2.05%) followed by a downturn of -1.61% in March. The Trump administration's pronouncement ordering government-sponsored entities (GSEs) to begin purchasing \$200 billion in mortgages in early January pushed spread levels tighter in early January and February, but the curve's shift higher in March negated most of this impact. The Bloomberg US Mortgage-Backed Securities (MBS) Index's duration, or sensitivity to interest rate movements, experienced a bit of a roller-coaster ride, starting the year at 5.56, bottoming out at 5.08 at the end of February before climbing higher in March and finishing the month at 5.44, the largest monthly increase (+7.20%) since 2022.

## Q1 performance review

### Key contributors

- Consumer unsecured asset-backed securities (ABS), a significant weight in the portfolio, contributed to overall strategy performance during Q1, outpacing the overall benchmark return.
- Non-agency commercial mortgage-backed securities were the best performing sector within the strategy, fueled by strong performance from office, multifamily and hospitality, more than enough to offset challenging performance in laboratory.
- Non-agency residential mortgage-backed securities delivered another strong quarter of performance, fueled by continued strength in home equity conversion mortgages (HECM or reverse mortgages) and second lien.

### Key detractors

- Auto ABS detracted from performance during the quarter due to lingering volatility in the subprime auto space.
- The portfolio's significant underweight to Treasuries detracted from performance in Q1, despite stronger relative performance compared to the benchmark allocation.
- The portfolio's allocation to collateralized mortgage obligations, while positive, trailed overall benchmark performance during the quarter, detracting from relative performance.

Bonds rated AAA, AA, A and BBB are considered investment grade.

Period and Annualized Total Returns (%)	Since Inception (30 Nov 2021)	3Y	1Y	YTD	1Q26
Gross of Fees	4.34	6.94	5.23	0.69	0.69
Net of Fees	3.97	6.56	4.86	0.60	0.60
Bloomberg 1-3 Yr. US Gov./Credit Index	2.42	4.35	3.96	0.28	0.28

Calendar Year Returns (%)	30 Nov 2021 - 31 Dec 2021	2022	2023	2024	2025
Gross of Fees	-0.09	-3.64	7.86	7.89	6.55
Net of Fees	-0.12	-3.98	7.49	7.52	6.18
Bloomberg 1-3 Yr. US Gov./Credit Index	-0.15	-3.69	4.61	4.36	5.35

Diamond Hill Capital Management, LLC (DHCM) is an investment adviser registered with the Securities and Exchange Commission and a wholly owned subsidiary of Diamond Hill Investment Group, LLC; registration does not imply a certain level of skill or training. DHCM provides investment management services to individuals and institutions through mutual funds, separately managed accounts, collective investment trusts, a private fund, a closed-end interval fund and other pooled vehicles including subadvised funds and model delivery programs. Policies for valuing investments, calculating performance and preparing GIPS reports, as well as a complete list and description of all composites, are available upon request. To receive a complete list and description of all Diamond Hill composites and/or a GIPS® report, contact Patrick Trencansky at 614.641.2734, ptrencansky@diamond-hill.com or 325 John H. McConnell Blvd., Suite 200, Columbus, OH 43215. A list of broad distribution pooled funds is available upon request. In addition, a list of limited distribution pooled fund descriptions is available upon request. The Short Duration Investment Grade Composite is comprised of discretionary, fee-paying, non-wrap accounts managed according to the firm's Short Duration Investment Grade fixed income strategy. The strategy's investment objective is to maximize total return consistent with the preservation of capital. The strategy typically invests in a diversified portfolio of investment grade, fixed income securities, including bonds, debt securities and other similar US dollar-denominated instruments issued by various US public- or private-sector entities, by non-US corporations or US affiliates of non-US corporations or by non-US governments or their agencies and instrumentalities. The portfolio may invest a significant portion of its assets in asset-backed, mortgage-related and mortgage-backed securities at the discretion of Diamond Hill Capital Management, LLC (the "Adviser"). The portfolio will typically maintain an average portfolio duration of less than three. As of 30 September 2024, there is no minimum account size. Prior to this date, the minimum account size was \$100 million. The composite results reflect the reinvestment of dividends, capital gains and other earnings when appropriate. Composite returns and benchmark returns are presented gross of withholding taxes on dividends, interest income and capital gains. Returns are calculated using US Dollars. Net returns are calculated by reducing the gross returns by the highest stated fee in the composite fee schedule. Only transaction costs are deducted from gross of fees returns. Prior to 30 September 2022, actual fees were used in calculating net returns. All net returns were changed retroactively to reflect the highest fee in the composite fee schedule. The Bloomberg US 1-3 Yr. Gov./Credit Index is the benchmark. The index measures the performance of investment grade government and corporate bonds with maturities of one to three years. The index is unmanaged, includes net reinvested dividends, does not reflect fees or expenses (which would lower the return) and is not available for direct investment. Index data source: Bloomberg Index Services Limited. See [diamond-hill.com/disclosures](https://diamond-hill.com/disclosures) for a full copy of the disclaimer. **The performance data quoted represents past performance; past performance does not guarantee future results.** GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Analytics provided by The Yield Book® Software.

**The views expressed are those of Diamond Hill as of 31 March 2026 and are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Investing involves risk, including the possible loss of principal.**