# AI-Powered Dynamic Fixed Income
## Portfolio Monthly Update

| Strategy Description |
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| Qraft AI-Powered Dynamic Fixed Income seeks to exceed the return of the iShares Core US Aggregate Bond ETF (AGG US) over time. It aims to achieve this objective through a hierarchal portfolio construction approach that incorporates two proprietary Qraft AI Signals: (1) US Bond Duration Risk Signal, which assesses duration risk and allocates between short-, medium-, and long-term bonds, and (2) Credit Risk Signal, which assesses market conviction level and allocates accordingly between treasury and investment-grade bonds. The strategy also includes a satellite component that allocates up to 10% in high yield bonds. Qraft's proprietary AI engine utilizes a deep neural network to actively generate signals by analyzing macro variables such as interest rates and economic growth, among others, and their impact on market exposures. Qraft's AI engine is constantly evolving based on new market trends and optimization of risk-adjusted returns, which may result in monthly rebalancing for the Qraft AI-Powered Dynamic Fixed Income model portfolio. |

| Credit Risk | AI Tilting vs Benchmark* | Macro & Market Environment |
|---|---|---|
| Treasury Bond | − Underweight | Interest rates and the Federal Reserve's battle against inflation were once again the key topics on investors' minds as markets experienced a turbulent August. The U.S. stock market erased much of its gains in July, and the damage may have been worse had investors not found some relief in Jerome Powell's speech at the Jackson Hole Symposium, where the FOMC chairman acknowledged that recent economic data had shown signs of improvement. Powell, however, reiterated that inflation remains well above the Fed's 2% target (U.S. headline PCE rose 3.3% y/y in July, compared to 6.3% a year ago); market expectations generally point to borrowing costs staying at the current 5.25-5.5% for the time being.<br><br>Qraft's proprietary AI engine asseses credit risk based on forecasted market regime. Qraft's Credit Risk Signal detects little signs of systemic risk, and in September maintains an overweight on corporate and investment-grade bonds, while reducing treasury bond allocation to underweight. |
| Investment-Grade Bond | + Overweight | |

*Benchmark: iShares Core US Aggregate Bond ETF (AGG US)

| Duration Risk | AI Signal Change (MOM) | Macro & Market Environment |
|---|---|---|
| Long Term Bond | ↘ Decreased | U.S. economic data provided cause for optimism; core retail sales and industrial production both grew in July (0.7% and 1% m/m, respectively), and the Federal Reserve Bank of Atlanta estimates that third quarter growth for U.S. GDP have edged close to 6%. Following Fitch's downgrade of the U.S. credit rating from "AAA" to "AA+", 10-year treasury yields peaked at 4.37% in August - its highest since 2008. Short term treasury yields continued to edge cloer to investment grade bond yields, making short term bond income comparable. For the month, longer term corporate bonds declined (VCLT -2.04%) while short term bonds rose slightly (SLQD +0.19).<br><br>Qraft's proprietary AI engine dynamically adjusts duration risk based on forecasted market regime. In September, Qraft's Duration Risk Signal maintains increased allocation to Intermediate term bonds, while decreasing Long and Short term bond allocations. |
| Intermediate Term Bond | ↗ Increased | |
| Short Term Bond | ↘ Decreased | |

Source: Qraft Technologies, Morningstar