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Domestic Investment Grade Fixed Income Market Summary

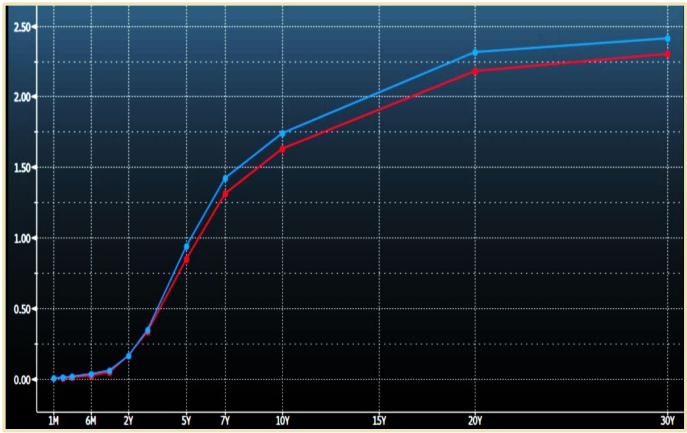
April 2021

Benchmark Yields Fall Despite Strengthening Recovery; Inflation Expectations Rise Further

- Intermediate and long-term Treasury yields declined roughly 10 basis points despite generally better-than-expected economic data and a continued rally in risk assets, while the short-end remained anchored near 0%.
  - Institute for Supply Management surveys showed accelerated growth in both the manufacturing and service sectors.
  - Bureau of Labor Statistics reported 916,000 jobs were added in March (expected: 660,000), the most since August
    - Unemployment rate declined to 6.0% (pre-pandemic: 3.5%).
    - Average hourly earnings unexpectedly declined -0.1%, signifying more hiring in lower-paying industries.
  - Retail sales increased 9.8% (expected: 5.8%).
  - Consumer Price Index (CPI) rose 0.6% (expected: 0.5%) in March with roughly half the increase from energy prices.
    - Year-over-Year CPI jumped 2.6% due to comparison to weak month during height of pandemic/shutdown (i.e., base effect).
  - Gross Domestic Product (GDP) expanded the most since 2003 during the first quarter at 6.4% annualized (expected: 6.7%).
    - Aided by stimulus payments, consumption of goods increased 23.6%, and the savings rate rose to 21.0% from 13.0%.
- Inflation expectations at 2.41% for the next decade are currently the highest since April 2013 according to Treasury Inflation Protected Securities (TIPS) pricing.

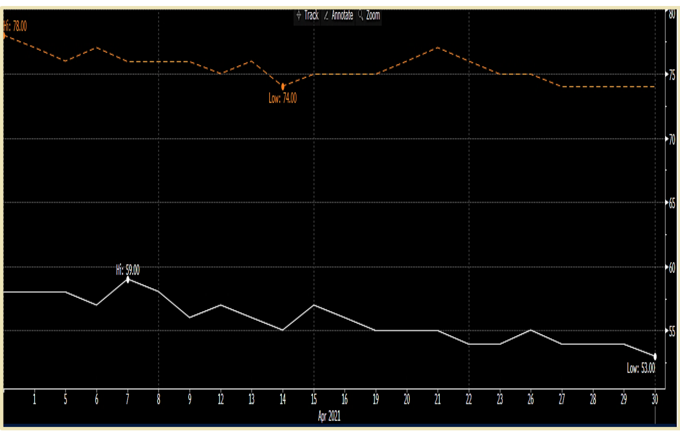
Maturity	3/31/21 Treasury	4/30/21 Treasury	Change
2-year	0.16%	0.16%	0.00%
5-year	0.94%	0.85%	-0.09%
7-year	1.42%	1.31%	-0.11%
10-year	1.74%	1.63%	-0.11%
30-year	2.41%	2.30%	-0.11%

Treasury Yield Curve: 3/31/21 (blue) vs. 4/30/21 (red)



Segment	April Return	YTD Return
Bloomberg Barclays Intermediate Gov't Credit Index	0.50%	-1.37%
ICE BofA 1-10 Year US Inflation-Linked Treasury Index	1.33%	1.28%
ICE BofA 1-10 Year Corporate Index	0.74%	-1.34%
ICE BofA 1-10 Year Taxable Municipal Index	0.85%	-0.67%

1-10 Year IG Credit Spreads: Corporate (orange) and Taxable Municipal (white), April 2021



The Federal Reserve (Fed) Shows Patience; Credit Spreads Remain Tight

- Despite acknowledging a strengthening economy, the Fed held monetary policy steady during the April meeting.
  - Recent pricing pressures were classified as transitory, indicating the Fed may be willing to accept a temporary inflation uptick in favor or further labor market healing.
  - Sectors hit hardest by the pandemic have improved but remain weak according to the U.S. central bank.
  - There was no update to the existing bond purchase program, which will likely be reduced as the eventual first step in accommodation withdrawal, and the Fed reiterated that "substantial further progress" toward maximum employment and 2% average inflation would be required before changes will be made.
- With risk premiums already lower than pre-pandemic and historical average levels, continued strength in the economic recovery resulted in minimal credit spread tightening.
  - Investment grade credit (corporate and taxable municipal bonds) outperformed Treasuries, but the alpha was largely limited to income.
  - Performance was generally the same across the ratings spectrum.

Source: Bloomberg; Bureau of Economic Analysis; Federal Reserve; ICE BofA; Veritable, L.P.
All numbers are estimates. See Disclosures for index descriptions and additional information.

Municipal Yields Fall and Curve Flattens with Treasuries; Longer-Dated Maturities Outperform

- Tax-exempt yields were lower by 4 to 16 basis points during April, and the curve bull-flattened.
- To maximize yield in a low benchmark rate environment, many investors added to duration and/or credit risk during the month.
  - Performance was strongest in longer-dated maturities, as 10+ year rates fell 13-16 basis points compared to the more modest 4-8 basis point decline of 2-7 year yields.
  - The yield spread between 2-year and 10-year municipal debt narrowed 9 basis points to 89 basis points.
  - According to Refinitiv Lipper weekly fund reporting data, investors added a whopping $7.85 billion to municipal funds in April with $3.4 billion invested in high yield funds.
- With municipals mostly matching or besting equivalent-maturity Treasury performance, relative value ratios remained near historic lows.
  - Municipal-to-Treasury yield ratios sank below 70% for all maturities of 2 years or greater, as the 10-year relative valuation ended the quarter at just 60.7%, well below the 92.3% average over the past five years.
- Despite the low absolute rate environment and rich relative valuations, state and local government debt remained attractive to investors thanks to improving credit fundamentals and the looming risk of higher taxes under President Biden.
  - The American Rescue Plan (ARP) has provided direct aid to state and local governments thereby bridging the gap until fiscal spending cycles its way into the economy and COVID-19 infection rates fade with the vaccine rollout.
    - Incoming stimulus funds of $350 billion via the ARP, more than double the relief funds allocated to municipalities in the CARES Act, will “significantly boost near-term revenues for states, local governments, transit systems and education providers through both direct aid and economic stimulus” according to Fitch Ratings.
  - Tax shelters like municipal investments that are exempt from state and local taxes are in high demand as investors expect tax increases under the Biden Administration in order to help fund massive COVID-19 fiscal spending.
- The decline in U.S. government yields and an ongoing healthy appetite for municipal debt resulted in the ICE BofA 1-12 Year Municipal Securities Index producing a solid +0.52% total return in April.
  - April performance was sufficient to turn this municipal index positive for the calendar year, producing a 0.23% year-to-date total return even as taxable fixed income sectors remain in the red for 2021.

Maturity	3/31/21 Muni	4/30/21 Muni	Change	% of U.S. Govt 4/30/21
2-Year	0.14%	0.10%	-0.04%	62.50%
5-Year	0.51%	0.43%	-0.08%	50.59%
7-Year	0.77%	0.69%	-0.08%	52.67%
10-Year	1.12%	0.99%	-0.13%	60.74%
15-Year	1.35%	1.20%	-0.15%	64.17%
20-Year	1.55%	1.40%	-0.15%	64.22%
30-Year	1.75%	1.59%	-0.16%	69.13%

10-Year AAA Municipal-to-Treasury Yield Ratio: 2016-2021

- The strong technical environment could continue to support municipals over the next several months, despite rich relative valuations, although tax-related selling could provide investors with a brief window of opportunity in May.
- Net municipal supply is projected to be relatively flat over the second quarter, but the upcoming seasonal reinvestment season coupled with the typical ‘summer doldrums’ decline in new issuance are expected to push supply-demand back into negative territory with coupon income and principal payments exceeding new issuance by an estimated $32 billion.
  - Early-year municipal outperformance relative to Treasuries occurred despite the new issue calendar producing the highest year-to-date tax-exempt supply since 2017 totaling $108 billion.

Source: Bloomberg; JP Morgan; Refinitiv; Veritable, L.P.
All numbers are estimates. See Disclosures for index descriptions and additional information.

Disclosures

This Summary reflects the views of Veritable's Fixed Income Desk and is for your general information. It is not intended to provide personal investment advice and does not take into account the unique investment objectives and financial situation of the reader. Investors should only seek investment advice from their individual financial adviser. Investments in fixed income securities involve the risk of loss that investors should be prepared to bear. Forecasts may not be realized due to a variety of factors, including changes in economic growth, corporate profitability, geopolitical conditions, and inflation.

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Index Descriptions *(Investors cannot invest directly in an index)*

Bloomberg Barclays Intermediate Government Credit Index: A total returns index of U.S. dollar denominated U.S. Treasuries, government-related securities, and investment grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years. Securities must have $250 million or more of outstanding face value and must be fixed rate and non-convertible.

ICE BofA 1-10 Year Corporate Index measures the performance of investment grade corporate bonds of both U.S. and non-U.S. issuers that are U.S. dollar-denominated and publicly issued in the U.S. domestic market with a remaining term to final maturity greater than or equal to 1 year and less than 10 years.

ICE BofA 1-10 Year Taxable Municipal Index is designed to track the performance of U.S. dollar-denominated taxable municipal debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. market with a remaining term to final maturity greater than or equal to 1 year and less than 10 years.

ICE BofA 1-10 Year US Inflation-Linked Treasury Index is a subset of ICE BofA US Inflation-Linked Treasury Index including all securities with a remaining term to final maturity greater than or equal to 1 year and less than 10 years.

ICE BofA 1-12 Year Municipal Securities Ind*ex* is a subset of ICE BofA Municipal Securities Index including all securities with a remaining term to final maturity less than 12 years. The ICE BofA Municipal Securities Index is market capitalization weighted and tracks the performance of U.S. dollar denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market. Qualifying securities must have at least one-year remaining term to final maturity, at least 18 months to final maturity at the time of issuance, a fixed coupon schedule and an investment grade rating (based on an average of Moody's, S&P and Fitch).

Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate. The CPI is published by the US Bureau of Labor Statistics on a monthly basis.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health. The GDP is published by the Bureau of Economic Analysis (BEA).

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