Domestic Investment Grade Fixed Income Market Summary

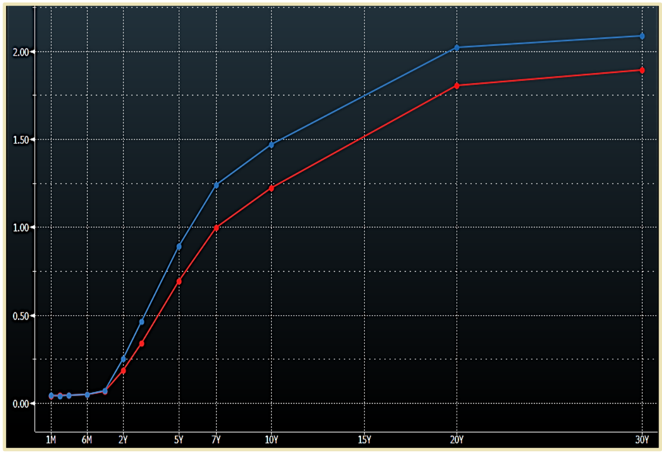
July 2021

Treasury Yields Decline on COVID-19 Delta Variant's Spread as Pricing Pressures Continue

- Intermediate and long-term Treasury yields declined 20-25 basis points in the face of continued elevated inflation and mostly encouraging economic data.
  - Spread of the highly contagious COVID-19 Delta variant caused concerns over global growth projections and pulled yields lower.
  - Institute for Supply Management surveys showed slower growth in the manufacturing and service sectors, but both remain historically strong with demand exceeding pandemic-related constrained supply.
  - Bureau of Labor Statistics reported 850,000 jobs were added in June, above expectations of 720,000 and the most since August 2020.
    - The Leisure and Hospitality segment continues to lead the job gains, and Government Education saw an uptick that is likely due to preparation for broad return to in-person learning.
    - Unemployment rate was little changed at 5.9%.
    - Notably, the June survey concluded before many states that have announced early expiration of enhanced unemployment benefits began phasing them out.
  - The Consumer Price Index (CPI) again rose sharply and by the most in more than a decade, surging 0.9% (expected: 0.5%) in June with used cars/trucks (+10.5%), lodging away from home (+7.0%), and airline fares (+2.7%) remaining elevated.
    - Year-over-Year CPI jumped 5.4% compared to a low June 2020 pandemic level (i.e., base effect).
    - Core CPI rose 0.9% and 4.5% compared to the previous month and year, the largest increases since 2008 and 1991, respectively.
    - Market participants continue to monitor inflationary pressures for non-transitory post-pandemic influences as well as potential lags such as home price appreciation flowing-through to the CPI shelter component.

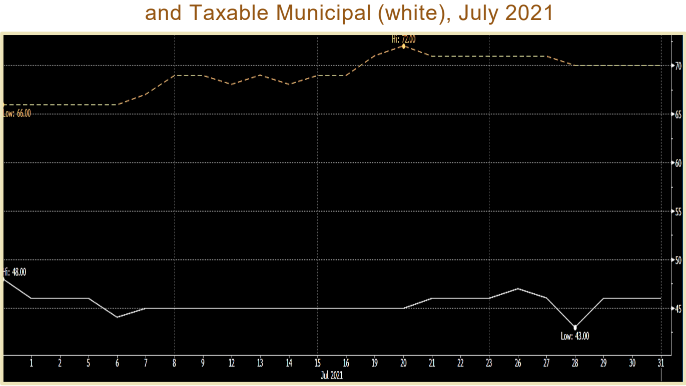
Maturity	6/30/21 Treasury	7/31/21 Treasury	Change
2-year	0.25%	0.19%	-0.06%
5-year	0.89%	0.69%	-0.20%
7-year	1.24%	1.00%	-0.24%
10-year	1.47%	1.22%	-0.25%
30-year	2.09%	1.89%	-0.20%

Treasury Yield Curve: 6/30/21 (blue) vs. 7/31/21 (red)



Segment	July Return	YTD Return
Bloomberg Barclays Intermediate Government Credit Index	0.77%	-0.14%
ICE BofA 1-10 Year US Treasury Index	0.71%	-0.37%
ICE BofA 1-10 Year US Inflation-Linked Treasury Index	2.28%	4.70%
ICE BofA 1-10 Year Corporate Index	0.71%	0.37%
ICE BofA 1-10 Year Taxable Municipal Index	1.14%	1.33%

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



Federal Reserve (Fed) Talks Taper; Treasury Inflation Protected Securities (TIPS) Outperform Again

- Fed members have stated that pricing pressures have been larger than anticipated and started discussions for a process by which highly accommodative policy withdrawal can begin.
  - In Senate testimony, Chairman Powell called current inflation pressures unique and concentrated to a limited number of areas so far but acknowledged "upside risks" to price stability.
  - While no decision was announced, the late July meeting included a deep dive discussion on potential timing, composition, and pace of asset purchase reductions.
    - Chairman Powell indicated that purchases of Treasuries and MBS would likely be reduced simultaneously, although a greater relative emphasis on the latter is possible.
- Buoyed by surging CPI prints, TIPS continued to outpace nominal bonds, as inflation expectations moved slightly higher in July despite concerns that a resurgence of COVID-19 infections could hinder global economic growth, pulling real yields deeper in negative territory.
- Corporate bond spreads widened slightly, while taxable municipal risk premiums declined marginally with both remaining around the lowest levels of the past 20 years.
  - Despite significant discussions over a government-subsidized program incentivizing taxable municipal bond issuance as part of an infrastructure spending plan, the latest version of the bill making its way through Congress does not include such a provision.

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 Across the Curve, Underperform Treasuries Except Front-End Maturities

- Municipal yields rallied lower in July but generally lagged the sharp decline in Treasury rates despite the tailwind of a strong seasonal technical environment.
- With absolute rates and relative valuations near historic lows and the continued threat of inflation, municipal investors were less inclined to extend duration for incremental yield instead favoring the shelter of the front-end of the curve despite yield ratios offering no benefit in terms of the municipal tax exemption.
  - On a relative basis, short-term maturities performed best, as the 2-year AAA municipal yield declined 10 basis points in July versus the comparable-maturity Treasury falling 6 basis points to 0.19% with the relative valuation metric falling to an ultra-expensive 31.6% (historical average over the past five years: 93%).
  - The intermediate part of the tax-exempt curve was the top performing maturity sector from an absolute yield change perspective, as the 10-year AAA municipal yield fell 17 basis points to 0.82% with the yield ratio ending the month at a historically rich 67.2% (historical average over the past five years: 91%).
  - The tax-exempt yield curve flattened along with its taxable counterpart, but the compression was less pronounced, as the yield spread between 2-year and 10-year AAA municipals declined 7 basis points to 76 basis points.

Maturity	6/30/2021 Muni	7/31/2021 Muni	Change	% of U.S. Govt 7/31/2021
2-Year	0.16%	0.06%	-0.10%	31.58%
5-Year	0.49%	0.36%	-0.13%	52.17%
7-Year	0.69%	0.57%	-0.12%	57.00%
10-Year	0.99%	0.82%	-0.17%	67.21%
15-Year	1.17%	1.02%	-0.15%	72.34%
20-Year	1.32%	1.19%	-0.13%	65.75%
30-Year	1.50%	1.39%	-0.11%	73.54%

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

Municipals Post Outperformance in Shorter Maturities and Underperformance in Longer Maturities Versus Treasuries

- According to Refinitiv Lipper, weekly reporting municipal bond funds experienced inflows totaling $7.7 billion in July, the 21st consecutive week of positive net flows.
  - Weekly and monthly reporting municipal bond funds have pulled in $69.5 billion thus far this year as of July 28, the fastest on record and exceeding the 2019 pace when total year inflows set a record of $93.6 billion.
  - National municipal bond funds have accumulated $65.5 billion in assets with high yield tax-exempt funds taking in $16.5 billion year-to-date.
- With municipal-to-Treasury yield ratios at rich levels, we are identifying crossover opportunities in the taxable market for incremental after-tax yield for traditional tax-exempt investors, specifically targeting the front-end (2-7 years) where relative valuations have cratered below 60%.
- For the second consecutive month, a more muted follow-through rally in tax-exempts resulted in municipal underperformance with the ICE BofA 1-12 Year Index producing a 0.57% total return in July (year-to-date: 1.05%).
- Municipal performance should continue to benefit from a favorable technical environment over the near-term, as demand is expected to outstrip supply in August before normalizing in subsequent months.
  - JP Morgan projects net supply to fall to -$16 billion in August, its most supportive level for the year from a technical standpoint, before turning positive in September (+4 billion) and October (+$5 billion).
- Multiple factors that could lead to municipal price weakness despite the strong seasonal technical environment include, but are not limited to:
  - Municipal supply surge causing relative valuations to normalize from currently expensive levels,
  - Rising benchmark Treasury yields as inflation and/or Fed tapering/rate hike fears rise, and
  - A reversal of the strong fund inflows that creates a negative feedback loop. If retail investors flee, who will be the liquidity provider?

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 is 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 US Treasury Index is a subset of ICE BofA 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 1-10 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 1-10 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 1-12 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.

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