Domestic Investment Grade Fixed Income Market Summary

August 2021

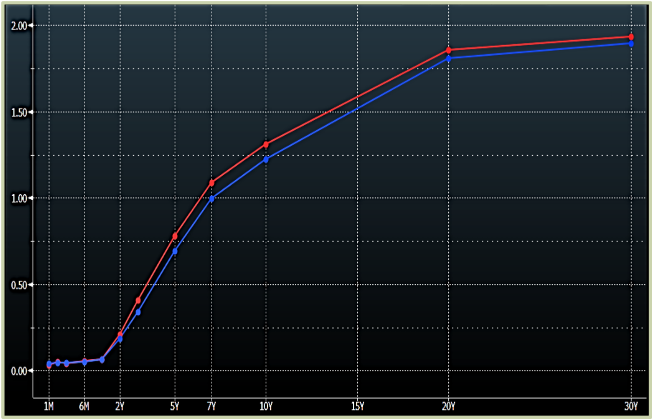
VERITABLE

Treasury Yields Rise on Taper Talk Despite COVID-19 Delta Variant's Potential Impact

- The Treasury yield curve shifted higher in August with 5-10 year rates rising 9 basis points, while front and back-end yields increased more modestly, as further talk of the Federal Reserve ("Fed") tapering bond purchases as well as encouraging economic data outweighed COVID-19 concerns.
    - Institute for Supply Management surveys showed slightly slower growth in manufacturing while service sector growth accelerated to the highest level on record.
    - Bureau of Labor Statistics (BLS) reported 943,000 jobs were added in July, above expectations of 870,000 and the most since August 2020.
        - The BLS indicated that pandemic-related fluctuations in education staffing likely distorted normal seasonal adjustments and potentially overstated July strength.
        - Unemployment rate fell more than expected to 5.4%, moving closer to the 3.5% pre-pandemic level.
    - In what may be an outlier rather than a trend, University of Michigan's Consumer Sentiment Index fell to nearly a decade low on concerns over the COVID-19 delta variant spread and inflationary pressures.
        - These factors plus waning stimulus efforts also resulted in retail sales declining -1.1% in July (-0.3% expected).
    - As expected, the Consumer Price Index (CPI) rose more modestly in July (+0.5% vs. +0.8% three-month average) with a notably smaller increase in used vehicles (+0.2%) and no change in apparel.
        - Core CPI rose 0.3%, less than the 0.4% forecast.
        - The reading could indicate that supply shortages are declining, and near-term inflationary pressures may have peaked.
        - Year-over-year CPI: 5.4%

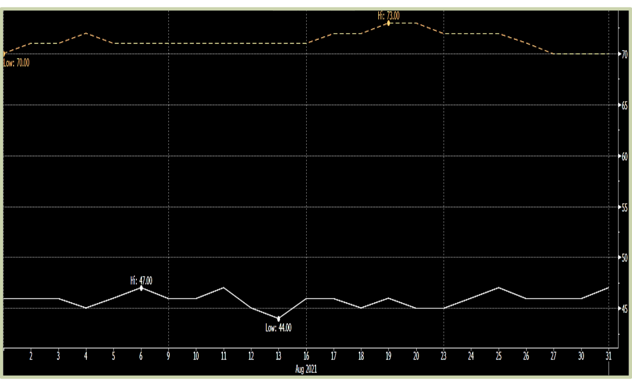
Maturity	7/31/21 Treasury	8/31/21 Treasury	Change
2-year	0.19%	0.21%	+0.02%
5-year	0.69%	0.78%	+0.09%
7-year	1.00%	1.09%	+0.09%
10-year	1.22%	1.31%	+0.09%
30-year	1.89%	1.93%	+0.04%

Treasury Yield Curve: 7/31/21 (blue) vs. 8/31/21 (red)



Segment	August Return	YTD Return
Bloomberg Barclays Intermediate Government Credit Index	-0.16%	-0.30%
ICE BofA 1-10 Year US Treasury Index	-0.13%	-0.50%
ICE BofA 1-10 Year US Inflation-Linked Treasury Index	-0.08%	4.61%
ICE BofA 1-10 Year Corporate Index	-0.11%	0.26%
ICE BofA 1-10 Year Taxable Municipal Index	-0.24%	1.08%

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



Credit Markets Mostly Follow Treasuries as Fed Watch Continues

- There were multiple indications that the Fed's "substantial further progress" test has been met toward price stability and full employment in order to begin removing accommodative policy.
    - July Fed meeting minutes made clear taper discussions are underway with most Federal Open Market Committee participants thinking a move in the coming months will be appropriate.
    - Vice Chairman Richard Clarida and leaders in multiple regional banks have called for reducing bond purchases this year with Atlanta District President Raphael Bostic going as far as stating "let's start the taper and let's do it quickly."
    - Chairman Powell has indicated a belief that sufficient progress has been made for inflation, and clear progress in the labor market could warrant reducing bond purchases this year, but interest rate hikes will not necessarily occur shortly thereafter.
- Within Treasury Inflation Protected Securities (TIPS), income from elevated CPI prints offset a slight decline in inflation expectations as the 10-year breakeven inflation rate fell from 2.40% to 2.34%, and the sector roughly matched nominal Treasury performance.
- Investment grade credit spreads were largely unchanged during the month and continue to hover around the lowest levels of the past two decades.
    - After BBB rated issues strongly outperformed A and better names over the roughly 12-month credit market recovery, performance has been much more even across the ratings spectrum since March with spreads having potentially converged to a cyclical low.

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 Rise Across the Curve as Curve Bear Steepens, Mostly Underperform Treasuries

- Municipal yields drifted higher in August along with Treasury rates with the greatest price weakness in longer-dated maturities despite the tailwind of a strong seasonal technical environment.
- With absolute rates and relative valuations hovering near historic lows and the continued threat of rising rates, municipal investors were in no rush to deploy their capital during the summer doldrums, particularly given the historically rich relative valuations in the front-end of the curve.
    - Relative to their taxable counterpart, the 5-7 year range of the municipal curve was the best-performer in August as AAA municipal yields rose 4-8 basis points versus comparable-maturity Treasury rates rising 9 basis points.
    - Indicative of municipal investors' reluctance to extend duration in the current rate environment, the front-end was the top-performing maturity sector from an absolute yield change perspective. 1-5 year AAA municipal yields rose a relatively modest 3-5 basis points while longer-dated tax-exempt yields were higher by 10-14 basis points.
    - The 10-year AAA municipal yield rose 10 basis points over the month, while the 10-year Treasury rate increased 9 basis points, pushing the yield ratio a tad higher to around 70%.
    - In August, the tax-exempt yield curve bear steepened led by a rise in longer-term yields, as the spread between 2-year and 10-year AAA municipal rates increased 5 basis points to 81 basis points.

Maturity	7/31/2021 Muni	8/31/2021 Muni	Change	% of U.S. Govt 8/31/2021
2-Year	0.06%	0.11%	0.05%	52.38%
5-Year	0.36%	0.40%	0.04%	51.28%
7-Year	0.57%	0.65%	0.08%	59.63%
10-Year	0.82%	0.92%	0.10%	70.23%
15-Year	1.02%	1.15%	0.13%	79.86%
20-Year	1.19%	1.33%	0.14%	71.89%
30-Year	1.39%	1.52%	0.13%	78.76%

- According to Refinitiv Lipper, weekly reporting municipal bond funds experienced inflows totaling $7.8 billion in August, the 26th consecutive week of positive net flows.
    - While overall retail demand for municipal debt remained robust, flows into riskier state and local government debt slowed, as average weekly inflows into the high yield sector declined more than 25% in August versus the previous month - from $622.3 million to $458.8 million.
- For traditional tax-exempt bond investors, we are continuing to identify crossover opportunities in the taxable market for incremental after-tax yield with municipal-to-Treasury yield ratios at rich levels, specifically targeting the front-end (2-7 years) where relative valuations are below 60%.

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

- Selling pressure in Treasuries flowed through to tax-exempt debt during the month, resulting in in the ICE BofA 1-12 Year Index producing a -0.16% total return in August (year-to-date: 0.88%).
    - August typically represents a period of technical strength for the municipal market due primarily to strong reinvestment demand, but the price weakness for the month produced the second worst August performance in more than two decades.
- The municipal market enters a period of less technical strength as net supply normalizes, and trading activity typically accelerates post-Labor Day.
    - JP Morgan projects net supply to turn positive in September (+$4 billion) and October (+$5 billion) after it fell to -$16 billion in August, its most supportive level for the year from a technical standpoint.
    - Municipal debt has generally benefitted from a lack of volatility with many practicing a more passive buy-and-hold strategy, although a pickup in trading activity could result in continued price weakness in longer-dated securities if selling pressure materializes or a rally as investors put summer reinvestment season cash to work.
        - Daily trading volume this year has tumbled to $8.7 billion, the lowest since 2001, according to Bloomberg data.
- Multiple factors that could lead to municipal price weakness over the next few months include:
    - A sharp decline in demand due to sticker shock among investors due to expensive valuations and/or COVID-19 credit risks reemerge,
    - 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

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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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