VERITABLE

Domestic Investment Grade Fixed Income Market Summary

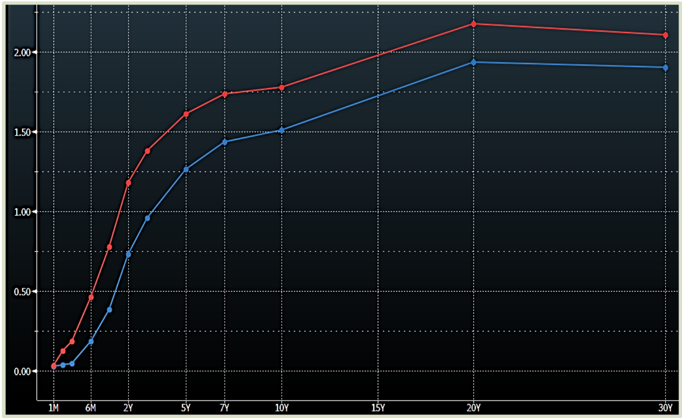
January 2022

Treasury Yield Curve Bear Flattened on Federal Reserve Commentary and Expectations

- The Treasury yield curve flattened while also shifting higher as short-term rates increased more than longer maturities.
  - Short-end yields rose sharply on greater tightening projections, while increases in longer rates were impacted by lower inflation expectations.
- Despite record high infections rates, investors began looking past the spread of the omicron variant due to relatively less severe illness among hospitalized, placing heavier focus on the hawkish sentiment from Fed members.
  - Minutes from the Fed's December Federal Open Market Committee meeting cited potential for an earlier start and/or faster pace for rate hikes than previously anticipated.
- Since mid-December, market expectations for Fed tightening have accelerated from commencing with a 25-basis point hike in May to the potential for a 50-basis point increase in March.
- Bureau of Labor Statistics reported that 199,000 jobs were created in December, less than half of the projected amount and the fewest since December 2020.
  - Unemployment rate fell to 3.9% (expected: 4.1%), generally in-line with the Fed's longer run neutral rate.
  - Average Hourly Earnings YoY: 4.7% (expected: 4.2%)
- Consumer Price Index (CPI) rose 0.5% in December, slightly higher than expected but less than the previous two months due to declining energy prices.
  - CPI YoY: +7.0% (largest since June 1982)
  - Core CPI MoM: 0.6% (expected: 0.5%)

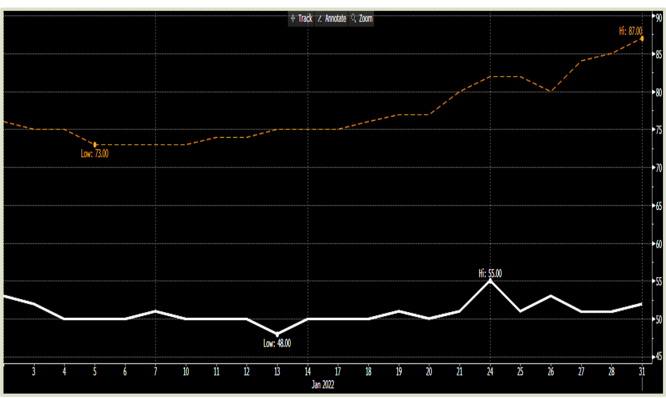
Maturity	12/31/21 Treasury	01/31/22 Treasury	Change
2-year	0.73%	1.18%	+0.45%
5-year	1.26%	1.61%	+0.35%
7-year	1.44%	1.74%	+0.30%
10-year	1.51%	1.78%	+0.27%
30-year	1.90%	2.11%	+0.21%

Treasury Yield Curve: 12/31/21 (blue) vs. 1/31/22 (red)



Segment	January Return	2022 Return
Bloomberg Barclays Intermediate Government Credit Index	-1.47%	-1.47%
ICE BofA 1-10 Year US Treasury Index	-1.24%	-1.24%
ICE BofA 1-10 Year US Inflation-Linked Treasury Index	-1.33%	-1.33%
ICE BofA 1-10 Year Corporate Index	-1.81%	-1.81%
ICE BofA 1-10 Year Taxable Municipal Index	-1.37%	-1.37%

1-10 Year IG Credit Spreads: Corporate (orange) and Taxable Municipal (white) January 2022



Credit Markets Showed Signs of Concern; TIPS Underperformed

- Financial markets sold off across the board in January, including credit markets and Treasury Inflation Protected Securities (TIPS), as optimistic economic indications stoked concerns that faster than expected Fed policy withdrawal will slow growth.
- For the first time since February, TIPS underperformed nominal Treasuries as inflation expectations declined due to the Fed's more aggressive sentiment toward fighting pricing pressures.
  - 10-year inflation expectations fell 12 basis points in January to 2.49%, well below the 2021 high of 2.77% from mid-November.
  - Inflation break-evens continued to show confidence in the Fed's ability to contain inflation long-term albeit with less transitory price pressures in the near-term; annual inflation is expected to be 2.09% for years 6-10 from today compared to 2.89% over years 1-5.
- The prospect of tighter financial conditions due to hawkish Fed policy pushed credit spreads wider in January, particularly within the corporate debt sector where risk premiums increased roughly 12 basis points across the investment grade (IG) credit spectrum.
  - Despite approximately 20 basis points of widening since the June post-pandemic low, IG corporate credit spreads are generally 40 basis points lower than the 25-year average level.
  - Taxable municipal bond spreads mostly held steady during January. Barring a quick reversal in sentiment, taxable municipal bond spreads will likely widen over the coming weeks due to the typical one-month sector lag versus corporate bonds.

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 ROSE DRAMATICALLY, UNDERPERFORMED TREASURIES ACROSS ALL MATURITIES

- Tax-exempt debt experienced its worst monthly performance since the start of the pandemic as rates increased by 46-66 basis points across the curve in January.
- While 2021 trading volume was generally subdued, the municipal market started the new year quite volatile, as investors confronted the reality of forthcoming rate hikes in the face of expensive valuations, while fund managers raised liquidity in anticipation of outflows. The result was a sharp repricing of tax-exempt rates along with a flattening curve.
  - The selling pressure within the tax-exempt market led relative underperformance in all maturities versus its taxable counterpart.
  - The short-end experienced the greatest weakness from an absolute rate rise perspective, as the 2-year AAA municipal yield rose 66 basis points.
  - While Treasury yields remained relatively static over the last two weeks of the month, the rate rise in municipal debt accelerated as selling activity surged.
  - The term premium between 2-year and 10-year AAA municipal rates narrowed 14 basis points to 65 basis points, the lowest point since February 2021.
  - The 10-year AAA municipal yield rose 52 basis points over the month to 1.55%, significantly underperforming the 27-basis point increase of the comparable Treasury rate, thereby pushing the yield ratio up to 87%.

Maturity	12/31/21 Muni	1/31/22 Muni	Change	% of U.S. Govt 1/31/22
2-Year	0.24%	0.90%	0.66%	76.27%
5-Year	0.59%	1.22%	0.63%	75.78%
7-Year	0.87%	1.41%	0.54%	81.03%
10-Year	1.03%	1.55%	0.52%	87.08%
15-Year	1.15%	1.67%	0.52%	92.78%
20-Year	1.30%	1.79%	0.49%	82.11%
30-Year	1.49%	1.95%	0.46%	92.42%

- According to Refinitiv Lipper, weekly reporting municipal bond funds experienced outflows totaling $567 million in January, halting a 45 consecutive week streak of positive net flows.
  - All fund classes shed assets including high yield funds, which lost $247 million.
  - Outflows accelerated later in the month, as municipal bond fund redemptions increased to $1.4 billion in the final week of January, the largest weekly outflow since April 2020.
  - An outflow trend has the potential to create a negative feedback loop as retail investors potentially react to underwhelming month-end statement returns.

10-Year AAA Municipal-to-Treasury Yield Ratio: 2017-2022

- The municipal underperformance relative to Treasuries reflated the 10-year relative valuation to 87%, near the 89% historical average over the past five years.
- The 5-year part of the curve has become more attractive with absolute municipal rates rising above 1.2%, higher than the pre-pandemic level (0.85% as of 1/31/20), and the relative valuation at 76%;
  - Taxable crossover opportunities have become less compelling versus tax-exempts given the rate move over the month.
- Seasonally low new issue supply likely prevented the sell-off from being more significant as tax-exempt January primary market activity totaled just $9.7 billion versus the 2021 monthly average of around $29 billion according to Bloomberg data.
  - Although net supply is forecasted to turn positive next month according to JP Morgan, reinvestment funds that sat on the sidelines in January may be redeployed back into municipals given the more attractive rate environment, resulting in potentially greater price stability.
  - While President Biden's Build Back Better (BBB) bill has been placed on hold to rally support, a key provision that allowed a version of BBB to pass the House was an increase in the SALT deduction cap from $10,000 to $80,000 through 2030, perhaps resulting in dampening demand from investors residing in high-tax states.
- With municipal-to-Treasury yield ratios at more attractive levels, demand from institutional investors like banks and insurance companies should reemerge as a partial backstop to the selling pressure.
- Retail investor-induced selling pressure caused the ICE BofA 1-12 Year Municipal Securities Index to produce a -2.20% total return in January, the worst monthly return since the start of the pandemic and the weakest January return since ICE has tracked the data (1989).

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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