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Domestic Investment Grade Fixed Income Market Summary

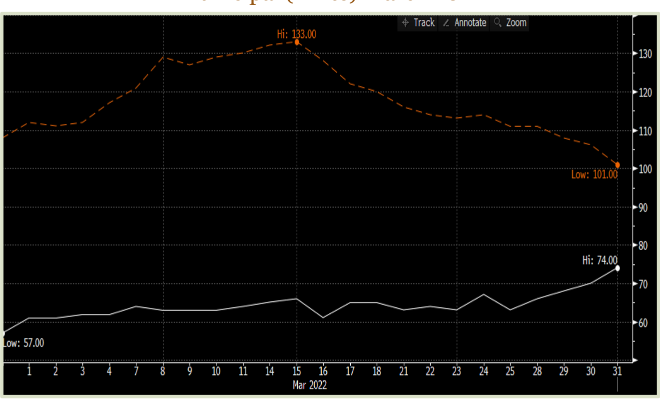
March 2022

Treasury Yield Curve Inverted as Bear Flattening Persisted with Beginning of Fed Rate Hikes

- Treasury yields moved higher throughout March, leading to the worst monthly performance for 1-10-year issues since August 1980 according to ICE BofA Index data.
- Bond investors looked past near-term risks involving Russia and Ukraine and primarily focused on an increasingly hawkish U.S. central bank and inflationary pressures.
    - With short-end rates increasing more than longer-term, the 2-year Treasury yield now matches the 10-year rate, while yields on interim maturities exceed the latter.
- As expected, the Fed increased its benchmark rate 25 basis points but surprised market participants with an aggressive median forecast projecting a 2.8% funds rate by year-end 2023 versus the December projection of 1.6%.
    - Additionally, the U.S. central bank stated that a reduction in its Treasury and mortgage-backed securities holdings could begin at an upcoming meeting.
- Bureau of Labor Statistics conveyed a second consecutive strong labor market report with 678,000 jobs created in February compared to 423,000 expected.
    - Unemployment rate moved lower to 3.8% (expected: 3.9%)
    - Average Hourly Earnings YoY: +5.1% (expected: +5.8%)
- Consumer Price Index (CPI) matched expectations by rising 0.8% in February on mostly broad increases including a 0.5% rise in the heavily-weighted shelter category.
    - CPI YoY: +7.9% (largest since January 1982)
    - Core CPI MoM: 0.5% (expected: 0.5%)

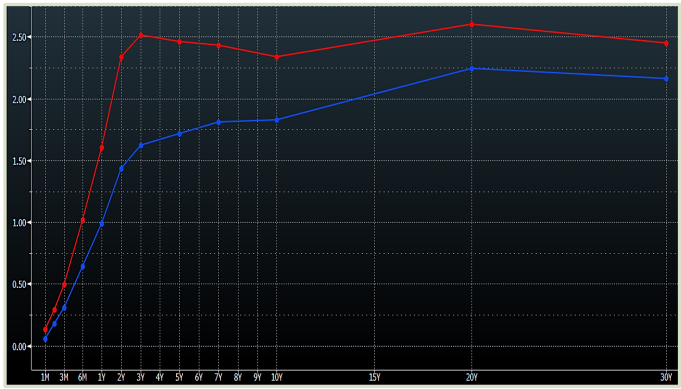
Segment	March Return	2022 Return
Bloomberg Barclays Intermediate Government Credit Index	-2.45%	-4.51%
ICE BofA 1-10 Year US Treasury Index	-2.41%	-4.02%
ICE BofA 1-10 Year US Inflation-Linked Treasury Index	-1.06%	-1.33%
ICE BofA 1-10 Year Corporate Index	-2.59%	-5.53%
ICE BofA 1-10 Year Taxable Municipal Index	-3.31%	-5.18%

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



Maturity	2/28/22 Treasury	3/31/22 Treasury	Change
2-year	1.43%	2.34%	+0.91%
5-year	1.72%	2.46%	+0.74%
7-year	1.81%	2.43%	+0.62%
10-year	1.83%	2.34%	+0.51%
30-year	2.16%	2.45%	+0.29%

Treasury Yield Curve: 2/28/22 (blue) vs. 3/31/22 (red)



Credit Markets Were Mixed, While TIPS Continued to Perform Relatively Well

- Despite outperforming nominal government bonds, Treasury Inflation Protected Securities' (TIPS) posted slightly negative total returns as rising real yields more than offset relative strength from higher inflation expectations and consistently elevated inflation data.
    - 10-year inflation expectations peaked at nearly 3% in March before ending the month at 2.83%, an increase of 21 basis points versus February despite increasingly hawkish sentiment from Fed officials.
    - The Russia-Ukraine war has added another chapter to the inflation story, impacting energy and metals prices.
- Over the past two months, we noted that the relative weakness in corporate bonds was not mirrored in the taxable municipal market where credit spreads were minimally impacted. As expected, that trend reversed in March with taxable municipal risk premiums rising while corporate bond spreads fell slightly month-over-month.
    - Investment grade corporate bond spreads continued to widen during the first half of the month before compressing over the final two weeks as Russia-Ukraine related risk aversion began to fade, and the sector's duration-adjusted performance essentially matched Treasuries.
    - After previously withstanding the general credit market weakness, taxable municipal bonds underperformed in March with spreads pushed wider. Year-to-date, the sector continues to post stronger relative performance than corporate debt but has lagged benchmark Treasury returns by roughly 100 basis points.

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.

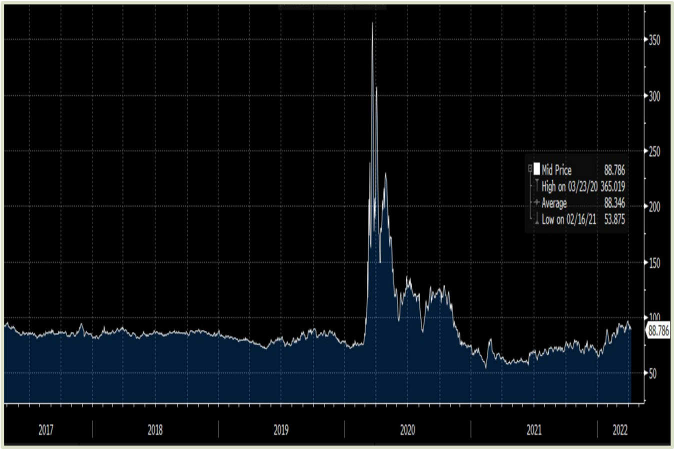
Municipal Yields Continued to Rise With Hawkish Fed, Posted Worst First Quarter Since 1980s

- In March, municipal yields surged higher along with Treasuries, as hawkish Fed-speak took center stage with tax-exempts underperforming within longer-term maturities due to weak demand for duration.
- Relative strength persisted in shorter maturities as 2-5-year municipal yields were higher by 63-70 basis points versus the 74-91 basis point rise in equivalent-maturing Treasury rates.
    - Like Treasuries, the short-end of the municipal curve saw the greatest weakness from an absolute rate rise perspective.
    - The 5-year AAA tax-exempt yield ended the month near 2%, around 80 basis points above its five-year historical average.
    - At 80%, the 5-year AAA municipal-to-Treasury yield ratio is roughly in-line with its historical average over the past five years.
    - For the month, the 10-year AAA municipal yield increased 60 basis points to 2.18%, ending the quarter at the highest level since early 2019 (excluding the March 2020 pandemic induced rate volatility) and above the five-year historical average.
    - The yield ratio rose to 93%, the cheapest relative valuation since late 2020, offering reasonable shock-absorption if benchmark Treasury rates continue to rise.
    - The term premium between 2-year and 10-year AAA municipal rates continued to narrow, dropping 10 basis points to 42 basis points, the lowest spread since August 2020.

Maturity	2/28/22 Muni	3/31/22 Muni	Change	% of U.S. Govt 3/31/22
2-Year	1.06%	1.76%	0.70%	75.21%
5-Year	1.34%	1.97%	0.63%	80.08%
7-Year	1.48%	2.04%	0.56%	83.95%
10-Year	1.58%	2.18%	0.60%	93.16%
15-Year	1.72%	2.32%	0.60%	102.52%
20-Year	1.82%	2.40%	0.58%	92.31%
30-Year	1.98%	2.53%	0.55%	103.27%

- According to Refinitiv Lipper, weekly-reporting municipal bond funds experienced outflows totaling $9.1 billion in March, induced by the rising rate environment.
    - High yield and long-term funds continued to bleed assets, losing $2.2 billion and $6.2 billion, respectively.
    - After 45 consecutive weeks of inflows, weekly municipal bond funds have experienced outflows in 10 of the last 11 weeks through the end of March including three weeks of losses in excess of $2 billion.
    - An outflow trend has the potential to create a negative feedback loop, exacerbated by historically poor quarterly returns.

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



- With municipal investors fearful of duration risk, longer-term tax-exempts underperformed Treasuries, resulting in the 10-year relative valuation rising to 93%.
- Amid the rate volatility, tax-exempt investors preferred the safety of the shorter maturities, resulting in front-end outperformance relative to Treasuries.
    - The 2-year AAA municipal-to-Treasury yield ratio ended the month generally unchanged versus February at 75.2%
- Municipal net supply was negative in March with redemptions ($44.6 billion) exceeding new issuance ($32.9 billion) by $11.7 billion.
    - This supportive technical environment generally acts as a tailwind for municipal outperformance, but the current rate volatility likely influenced the amount of redemption proceeds recycled back into tax-exempts.
    - April generally represents a period of reduced technical support for municipal debt, as issuance typically outstrips coupon and principal payments while also competing with short-end tax season selling, potentially leading to greater price weakness for this sector.
- With the majority of the quarter-to-date municipal fund outflows coming from long-term funds, a unique buying opportunity could develop for those willing to become the 'last resort' liquidity provider with the retail exodus accelerating absent a demand backstop from institutional investors like banks and insurance companies
- With the municipal curve recalibrating higher due to hawkish Fed policy expectations, the ICE BofA 1-12 Year Municipal Securities Index generated a -2.17% total return in March, capping the worst quarterly start to a year 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

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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