Domestic Investment Grade Fixed Income Market Summary

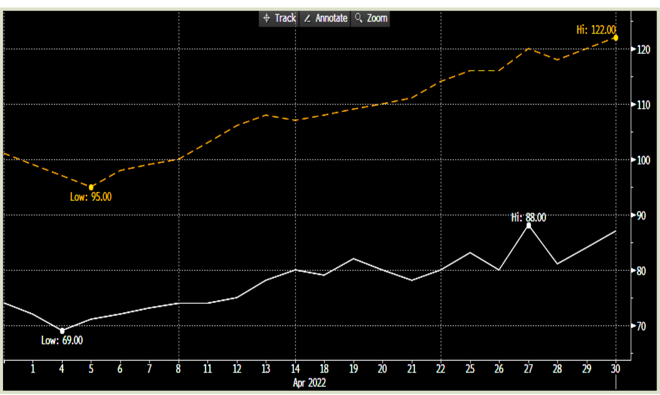
April 2022

Treasury Rates Continued to Rise Sharply, But the Treasury Yield Curve Bear Steepened

- After a dismal performance in March, Treasury yields continued to move higher in April with 1-10-year issues losing -1.58% according to ICE BofA Index data.
    - The Treasury curve steepened for the first month this year as the 2-year rate rose 38 basis points (bps) to 2.72% compared to a 60 bps increase in the 10-year yield to 2.94%.
- The main driving force behind the yield increase continued to be the combination of tighter monetary policy expectations and elevated inflation.
    - At month-end, futures pricing projected a Fed funds rate of 2.86% at the end of 2022, an increase of nearly 50 bps since March.
- Minutes from the Fed's March meeting showed that all participants agreed that balance sheet runoff should begin in the near-term with monthly caps likely to be $60 billion for Treasuries and $35 billion for agency mortgage-backed securities.
- Bureau of Labor Statistics reported solid but slightly below expected labor market gains of 431,000 jobs in March. With the unemployment rate nearing the historic low, wage pressures are emerging in a tight jobs market.
    - Unemployment rate moved lower to 3.6% (expected: 3.7%)
    - Average Hourly Earnings YoY: +5.6% (expected: +5.5%)
- Consumer Price Index (CPI) matched expectations by rising 1.2% in March led by strong energy price increases.
    - CPI YoY: +8.5% (largest since December 1981)

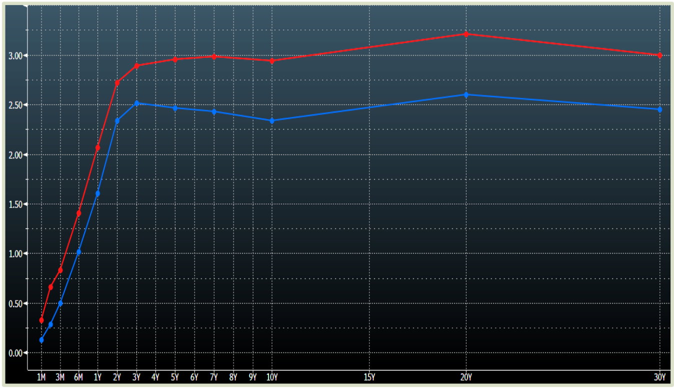
Segment	April Return	2022 Return
Bloomberg Barclays Intermediate Government Credit Index	-2.00%	-6.42%
ICE BofA 1-10 Year US Treasury Index	-1.58%	-5.53%
ICE BofA 1-10 Year US Inflation-Linked Treasury Index	-1.20%	-2.51%
ICE BofA 1-10 Year Corporate Index	-2.72%	-8.10%
ICE BofA 1-10 Year Taxable Municipal Index	-2.33%	-7.38%

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



Maturity	3/31/22 Treasury	4/30/22 Treasury	Change
2-year	2.34%	2.72%	+0.38%
5-year	2.46%	2.96%	+0.50%
7-year	2.43%	2.98%	+0.55%
10-year	2.34%	2.94%	+0.60%
30-year	2.45%	3.00%	+0.55%

Treasury Yield Curve: 3/31/22 (blue) vs. 4/30/22 (red)



Credit Markets Underperformed Badly; TIPS Held Up Relatively Well

- For the second consecutive month, Treasury Inflation Protected Securities (TIPS) posted negative total returns despite outperforming nominal government bonds, as rising real yields offset income from elevated inflation data.
    - During the second half of April, the 10-year inflation expectations pierced 3%, the highest level since 1997, before ending the month at 2.94%, an increase of 11 bps.
    - The rate rise pushed the 10-year TIPS real yield to 0%, moving out of negative territory for the first time since the onset of the pandemic.
- Credit segments performed similarly in April as risk-off sentiment permeated markets. Both investment grade corporate and taxable municipal bonds lagged government bond performance due to credit spread widening.
    - After a brief respite in March when risk aversion began to fade, corporate bond spreads gapped wider in April with risk premiums increasing 20 bps.
    - Taxable municipal bonds performed similarly to corporate debt in April with spreads generally moving 12 bps wider; however, the municipal sector continued to hold up better than its corporate credit peer.
    - Year-to-date, 1-10 year corporate and taxable municipals have underperformed Treasuries with corporate issues lagging government debt by 202 basis points, while taxable municipals have underperformed benchmarks by a more subdued 104 bps.

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.

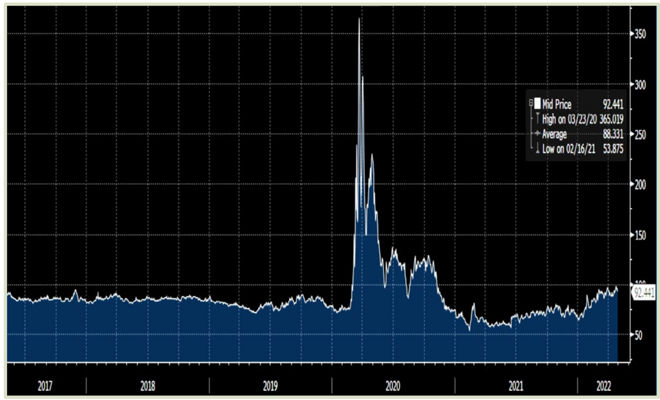
Municipal Yields Continued to Rise With Treasury Rates, Added to Worst Start of a Year Since 1980s

- In April, municipal rates resumed their climb higher along with Treasuries with a near-parallel 46-54 bps upward shift of the yield curve.
- Tax season selling pressure helped push short-term rates higher in April, as the 2-year AAA municipal yield rose 46 bps to 2.22% versus a 38 bp rise in the equivalent-maturing Treasury.
  - The 5-year AAA tax-exempt yield ended the month at 2.45%, roughly 130 bps above the historical average over the past five years and the highest level since 2008 excluding the March 2020 pandemic induced rate volatility.
  - At 83%, the 5-year AAA municipal-to-Treasury yield ratio is slightly above the historical average level of around 81% after ending 2021 at a paltry 47%.
  - For the month, the 10-year AAA municipal yield increased 54 basis points to 2.72%, 110 bps above the 5-year historical average.
  - The 10-year yield ratio was relatively unchanged at 93%, continuing to offer reasonable shock-absorption if benchmark Treasury rates continue to rise.
  - The term premium between 2-year and 10-year AAA municipal rates rebounded from March lows, rising 8 basis points to 50 basis points, but remained expensive from a historical perspective.

Maturity	3/31/22 Muni	4/30/22 Muni	Change	% of U.S. Govt 4/30/22
2-Year	1.76%	2.22%	0.46%	81.62%
5-Year	1.97%	2.45%	0.48%	82.77%
7-Year	2.04%	2.57%	0.53%	86.24%
10-Year	2.18%	2.72%	0.54%	92.52%
15-Year	2.32%	2.84%	0.52%	98.61%
20-Year	2.40%	2.92%	0.52%	90.97%
30-Year	2.53%	3.05%	0.52%	101.67%

- According to Refinitiv Lipper, weekly-reporting municipal bond fund outflows accelerated in April, totaling $13.7 billion.
  - High yield and long-term funds continued to hemorrhage assets, losing $3.1 billion and $8.4 billion, respectively.
  - After 45 consecutive weeks of inflows, weekly municipal bond funds have experienced outflows in 14 of the last 15 weeks through the end of April.
  - The average weekly outflow increased to $3.3 billion, more than double the weekly average over the previous two months.
  - The current outflow cycle could persist given the poor total return performance year-to-date coupled with ongoing uncertainty around the Fed and inflation.

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



- Longer-term municipals slightly outperformed Treasuries in April but remain out-of-favor with investors who generally prefer the safety of shorter-term maturities absent seasonal selling pressures.
- Municipal net supply turned positive in April with coupon and principal payments ($22.5 billion) less than new issuance ($27.4 billion) by $4.9 billion, according to Bloomberg data.
  - Municipal net supply is projected to remain positive in May before giving way to the summer reinvestment season with coupon and principal payments expected to exceed new issuance.
    - This supportive technical environment over the summer generally acts as a tailwind for municipal outperformance, but the current rate volatility could limit the amount of redemption proceeds that are recycled back into tax-exempts, potentially creating more supply-demand dislocations than would otherwise occur under normal circumstances.
- The municipal curve is at-risk of bear steepening led by a rise in longer-term rates if mutual fund outflows accelerate, potentially creating a unique buying opportunity for those willing to become the 'last resort' liquidity provider.
- With the municipal curve shifting higher due in part to hawkish Fed policy expectations, the ICE BofA 1-12 Year Municipal Securities Index generated a -1.73% total return in April, extending the worst 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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