Domestic Investment Grade Fixed Income Market Summary

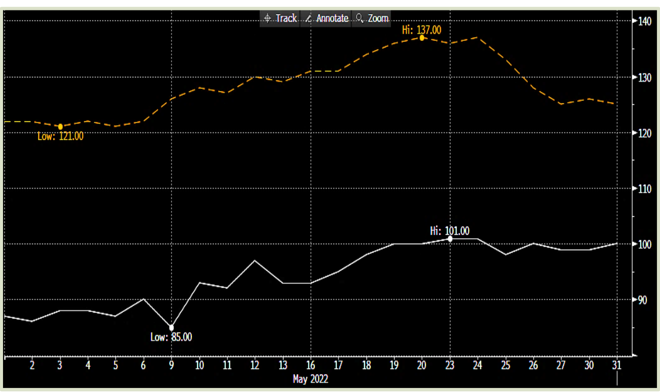
May 2022

Treasury Rates Mostly Declined as Yield Curve Bull Steepened

- Despite fluctuations throughout the month, Treasury rates inside of 20 years ended May lower by 9-16 basis points (bps) with larger rate declines in shorter maturities.
    - The Treasury curve steepened for the second consecutive month, as the 2-year rate declined 16 bps to 2.56% while the 10-year yield fell 9 bps to 2.85%.
- Competing factors resulted in a push-pull dynamic in May with rates moving higher due to hawkish Fed commentary and greater-than-expected inflation but ultimately descending due to recession risks, poor retail sales guidance, and a general risk-off market sentiment.
    - Investor focus shifted from hawkish monetary policy to the potential negative economic consequences of tighter financial conditions and inflation pressures.
- As expected, the Fed raised the funds rate 50 bps to a 0.75% - 1.00% range while also formally announcing its balance sheet reduction plan using previously disclosed initial monthly caps of $60 billion for Treasuries and $35 billion for agency mortgage-backed securities.
- Bureau of Labor Statistics gave a solid labor market report for April with 428,000 jobs added (expected: 380,000), unemployment rate unchanged at 3.6%, and less than expected wage pressure (hourly earnings: +0.3% vs. +0.4% estimate).
- Consumer Price Index (CPI) increased 0.3% in April, above a 0.2% estimate but also slower than recent monthly increases due in part to lower prices for oil, clothing, and used automobiles.
    - YoY CPI remained elevated at 8.3% (expected: 8.1%).

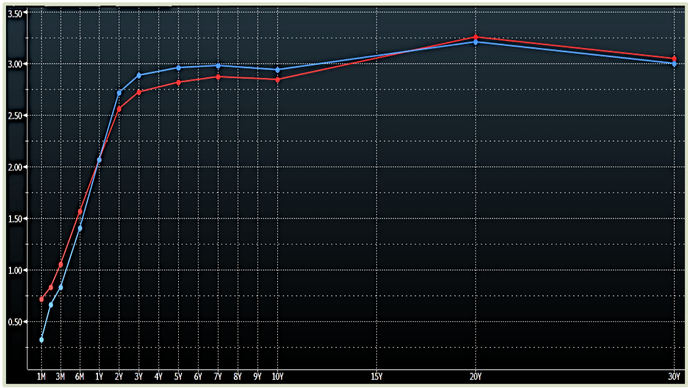
Segment	May Return	2022 Return
Bloomberg Barclays Intermediate Government Credit Index	0.74%	-5.72%
ICE BofA 1-10 Year US Treasury Index	0.63%	-4.94%
ICE BofA 1-10 Year US Inflation-Linked Treasury Index	-0.11%	-2.62%
ICE BofA 1-10 Year Corporate Index	0.66%	-7.50%
ICE BofA 1-10 Year Taxable Municipal Index	0.17%	-7.22%

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



Maturity	4/30/22 Treasury	5/31/22 Treasury	Change
2-year	2.72%	2.56%	-0.16%
5-year	2.96%	2.82%	-0.14%
7-year	2.98%	2.87%	-0.11%
10-year	2.94%	2.85%	-0.09%
30-year	3.00%	3.05%	+0.05%

Treasury Yield Curve: 4/30/22 (blue) vs. 5/31/22 (red)



TIPS Performed Poorly; Credit Markets Largely Followed Treasuries

- For the first month since January, Treasury Inflation Protected Securities (TIPS) failed to outperform nominal Treasury bonds with 1-10-year issues lagging by 71 bps on a duration-adjusted basis.
    - Declining inflation expectations were the driving force behind TIPS underperformance, as investors grew increasingly concerned with the negative economic impact of Fed policy and tighter financial conditions.
    - The 10-year TIPS inflation break-even rate fell 29 bps to 2.65%, while the 5-year break-even rate declined 41 bps to 2.94%.
    - After moving out of negative territory in April, the 10-year TIPS real yield continued to rise to 0.20% in May.
- Investment grade corporate bonds performed like Treasuries with credit spreads roughly unchanged for the month.
    - Credit spreads widened for most of the month on recession and economic growth concerns before a late May risk rally reversed the relative weakness.
- Taxable municipal bonds generally posted positive total returns due to lower benchmark rates but underperformed Treasuries as credit spreads within the sector widened in May.
- Year-to-date, corporate and taxable municipal bonds have now performed similarly with the former almost pulling even with the latter for 1-10-year maturities despite lagging considerably during the first two months of the year.

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.

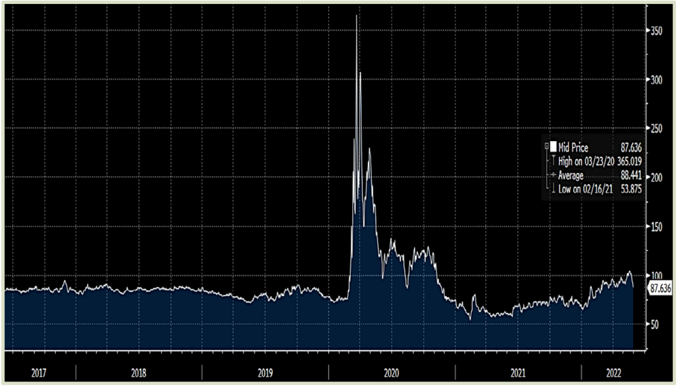
After Nervy Start, Municipal Debt Reversed Course to Stage Strong Rally Into Month-End

- In May, municipal yields initially resumed their climb higher, reaching multi-year highs by mid-month before near-term stability in Treasuries, attractive valuations, and the looming summer reinvestment season sparked a sharp rally into month-end.
  - Tax-exempt rates declined by 24-39 bps, and the municipal curve steepened led by shorter-term maturities.
- The front-end of the municipal curve experienced the strongest absolute rate move, aided by the removal of tax season selling pressures and strength in equivalent-maturing Treasuries.
  - 2-5-year municipal yields declined 36-39 bps with the 2-year AAA municipal yield ending May at 1.83%.
- Treasury market stability eased retail selling pressure and spurred institutional demand for tax-exempt debt at attractive valuations ahead of expected technical strength, pulling municipal rates lower by 50 bps across the curve from the mid-month yield peak.
- For the month, the 10-year AAA municipal yield declined 25 bps to 2.47%.
- The term premium between 2-year and 10-year AAA municipal rates rose 14 bps to 64 bps, roughly in-line with the historical average over the past five years.

Maturity	4/30/22 Muni	5/31/22 Muni	Change	% of U.S. Govt 5/31/22
2-Year	2.22%	1.83%	-0.39%	71.48%
5-Year	2.45%	2.09%	-0.36%	74.11%
7-Year	2.57%	2.31%	-0.26%	80.49%
10-Year	2.72%	2.47%	-0.25%	86.67%
15-Year	2.84%	2.59%	-0.25%	89.31%
20-Year	2.92%	2.68%	-0.24%	82.21%
30-Year	3.05%	2.81%	-0.24%	92.13%

- According to Refinitiv Lipper, weekly reporting municipal bond fund outflows continued through most of May but reversed course in the final week of the month (period ending June 1).
  - Before turning positive to close the month (+$1.2 billion weekly inflow), weekly reporting municipal funds experienced outflows totaling $6.1 billion for the preceding three weeks of May.
  - Combined weekly and monthly reporting municipal funds experienced 20 consecutive weeks of outflows with the year-to-date outflow cycle totaling $59.6 billion, second only to the $69.7 billion outflow cycle in 2013 during Taper Tantrum.
  - While weekly fund flows turned positive into month-end, volatility in Treasuries could reignite this heavy outflow cycle.

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



- The strong municipal demand versus Treasuries pushed relative valuations lower across the curve.
  - The 2-year AAA municipal-to-Treasury yield ratio ended the month at 71.5% (5-year historical average: 88%).
  - The 10-year relative valuation declined to about 87% (5-year historical average: 88%).
- According to Bloomberg data, municipal net supply remained positive in May with redemptions ($28.5 billion) falling short of new issuance ($32.2 billion) by $3.7 billion.
  - June is the start of summer reinvestment season, a period of technical strength for tax-exempt debt, wherein expected demand from principal and interest payments outstrips new supply.
  - JP Morgan estimates net supply of -$33 billion over the summer months (June – August).
- While the municipal market has experienced an impressive rally across the curve along with summer reinvestment season acting as a potential performance tailwind, the curve remains at risk of bear steepening caused by an increase in longer-term yields due to a combination of higher inflation expectations and Fed balance sheet unwinding.
- As Treasury market volatility ebbed, the municipal market rallied strongly to end May, resulting in the ICE BofA 1-12 Year Municipal Securities Index producing a +1.36% total return for the month, snapping the four-month streak of negative returns to start the year.

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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