VERITABLE

Domestic Investment Grade Fixed Income Market Summary

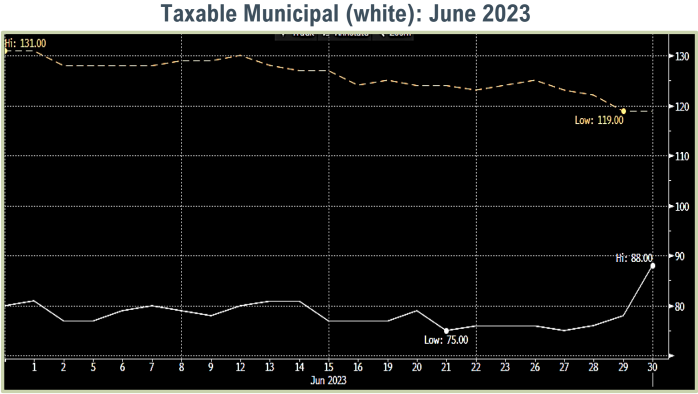
June 2023

Treasury Yields Continued to Rise on Fed Policy Expectations and Economic Outlook

- Healthy economic data and Fed commentary pointed toward more hawkish central bank policy, pushing Treasury yields higher for the second consecutive month.
  - Rates on 2-5 year Treasuries increased the most in June, shifting 40-50 basis points (bps) higher.
  - The 10-year Treasury yield rose 19 bps, deepening the curve inversion with the 2-year and 10-year spread at -106 bps, essentially matching the largest inversion since September 1981 which occurred in March of this year.
  - Despite concerns that catch-up new issuance following debt ceiling resolution would create price volatility, the Treasury bill market functioned normally without notable dislocations.
- As widely anticipated, the Fed left its benchmark lending rate unchanged during the mid-June meeting, the first meeting without a rate hike since the tightening cycle began in March 2022.
  - The accompanying statement and projections indicated the central bank expects June to be a pause rather than the end of the tightening cycle with the median member projection of 5.625% for year-end about 50 bps higher than both the current level and the previous 2023 year-end forecast from March.
- The Bureau of Labor Statistics reported that nonfarm jobs increased by 339,000 in May, strongly outpacing an expected 195,000 gain despite the unemployment rate moving slightly higher to 3.7% (expected: 3.5%).
- The Consumer Price Index (CPI) matched expectations with the overall and core readings increasing 0.1% and 0.4%, respectively, in May.
  - Year-over-year CPI growth decelerated for the eleventh consecutive month, increasing 4.0% (expected: 4.1%) but remains elevated versus the Fed's target.
- The University of Michigan Consumer Sentiment survey rose more than anticipated in May due to perceived improvements in both current and future economic conditions. Similarly, retail sales unexpectedly grew 0.3% in May (expected: -0.2%).

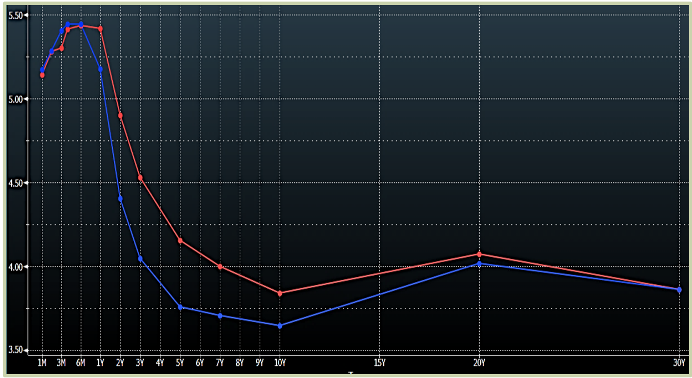
Segment	June Return	2023 Return
Bloomberg Barclays Intermediate Government Credit Index	-0.68%	1.50%
ICE BofA 1-10 Year US Treasury Index	-0.92%	1.08%
ICE BofA 1-10 Year US Inflation-Linked Treasury Index	-0.50%	1.50%
ICE BofA 1-10 Year Corporate Index	-0.22%	2.42%
ICE BofA 1-10 Year Taxable Municipal Index	-0.68%	2.65%

1-10 Year IG Credit Spreads: Corporate (orange) and Taxable Municipal (white): June 2023



Maturity	5/31/23 Treasury	6/30/23 Treasury	Change
2-Year	4.41%	4.90%	+0.49%
5-Year	3.76%	4.16%	+0.40%
7-Year	3.71%	4.00%	+0.29%
10-Year	3.65%	3.84%	+0.19%
30-Year	3.86%	3.86%	+0.00%

Treasury Yield Curve: 5/31/23 (blue) vs. 6/30/23 (red)



TIPS and Credit Outperformed Treasuries as Recession Risks Waned

- Treasury Inflation Protected Securities (TIPS) rebounded in June as inflation expectations have subsequently stabilized after being pulled lower due to recession and banking sector concerns.
  - TIPS maturing in 1-10 years returned -0.50% in June, providing 11 bps of excess return over duration-neutral nominal Treasuries.
  - The 10-year TIPS inflation break-even rate rose 5 bps to 2.22% over the past month but remains considerably below the 2.52% high for 2023.
  - More hawkish monetary policy expectations were offset by solid economic data and an improving outlook, resulting in the 5-year TIPS inflation break-even rate rising 10 bps to 2.16% in June.
- Credit markets improved again in June in the face of likely tighter financial conditions going forward than previously expected. Generally, fading recession worries have led to strong relative returns this year aside from March when banking sector concerns arose.
- Intermediate investment grade corporate bonds posted a -0.22% total return in June but outperformed Treasuries by an impressive 72 bps after adjusting for duration.
  - Industrial and financial credits as well as long duration led the way within the corporate space.
  - 1-10 year investment grade corporate debt has now outperformed Treasuries by 142 bps year-to-date with a 2.42% total return.
- For the fifth month this year, intermediate taxable municipal bonds outperformed Treasuries, earning 33 bps of excess return over government bonds in June.
  - 1-10 year issues have posted a total return of 2.65% this year, outpacing duration-neutral Treasuries by a strong 167 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.

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Municipals Rallied Despite Treasury Weakness

- Municipal yields fell 6-19 bps in June, and the curve bull steepened.
- Despite the increase in benchmark Treasury yields, tax-exempt rates fell across the curve, outperforming their taxable counterparts.
  - While the 2-year Treasury rate rose 49 bps to 4.90% due mainly to more hawkish Fed expectations, the 2-year AAA municipal yield fell 15 bps in June to 2.93%.
  - Municipal outperformance resulted in AAA municipal-to-Treasury yield ratios declining in all maturities, as the 2-year and 5-year relative value metric slipped to 60% and 63%, respectively, to close June.
- June 1st marked the start of summer reinvestment season (i.e., seasonal peak in municipal bond redemptions) that runs through August, providing a technical supply-demand performance tailwind.
- For the month, the 10-year AAA municipal yield fell 9 bps to 2.56%, still more than 80 bps above the 5-year historical average.
- The 10-year AAA municipal-to-Treasury yield ratio moved lower in June to 67%, remaining well-below the 5-year historical average of 86%.
  - For the relative value metric to reach the 86% historical average level, the 10-year AAA municipal yield must rise 74 bps to 3.30%, near the cyclical yield peak experienced in October 2022, assuming an unchanged 10-year Treasury rate.
- For traditional tax-exempt bond investors, taxable crossover opportunities are a viable alternative in shorter-term maturities, potentially offering higher after-tax yields and perhaps greater liquidity and diversification.
- The tax-exempt curve inversion eased slightly, as the term premium between 2-year and 10-year AAA municipals increased 6 bps to -37 bps.

Maturity	5/31/23 Muni	6/30/23 Muni	Change	% of U.S. Govt 6/30/23
2-Year	3.08%	2.93%	-0.15%	59.80%
5-Year	2.76%	2.62%	-0.14%	62.98%
7-Year	2.65%	2.54%	-0.11%	63.50%
10-Year	2.65%	2.56%	-0.09%	66.67%
15-Year	3.17%	3.09%	-0.08%	81.10%
20-Year	3.33%	3.27%	-0.06%	80.34%
30-Year	3.55%	3.49%	-0.06%	90.41%

- Net municipal bond fund flows were negative for the fifth straight month.
  - Investors withdrew $382 million from weekly and monthly reporting municipal bond funds in June (four weeks ending June 28) as year-to-date outflows climbed to $8.1 billion, well below the 2022 record pace.
- Flush with June reinvestment cash, retail investors continued to prefer the safety of the front-end of the curve, particularly with short-term rates hovering around 3% in June.
  - The stretched yield ratios have left short-term maturities with underperformance risk versus other parts of the tax-exempt curve (e.g., retail rotates to longer duration when rate volatility dampens) and compared to taxable paper (e.g., relative value mean reversion led by relatively stronger bull steepening in Treasury curve).

10-Year AAA Municipal Yield: 2018-2023

- Indicative of June 1st reinvestment demand, The SIFMA Municipal Swap Index [7-day high grade market index comprised of tax-exempt variable rate demand notes (VRDNs)] sank to as low as 2.84% in early-June (55% of the funds rate), as seasonal reinvestment cash absorbed available VRDN inventory, before normalizing by the end of the quarter at 4.01% (78% of the funds rate).
  - Higher VRDN demand generally corresponds with the timing of principal and interest payments at the start of months and typically cools over ensuing weeks as investors redeploy cash back into municipal bonds.
- According to SIFMA data, municipal public issuance climbed to $37 billion in June, the highest monthly total this year; however, first half 2023 primary supply lagged last year's pace by about 15% with the higher rate environment and healthy municipal issuer balance sheets suppressing financing needs.
  - According to JP Morgan, net supply is expected to remain in negative territory until August before rising to positive levels over the subsequent two months, a less supportive technical environment that could lead to underperformance versus taxable bonds and more palatable relative valuations.
  - BlackRock nearly-completed its liquidation of the municipal portfolios of Silicon Valley Bank and Signature Bank on behalf of the FDIC in June, which was generally well-received by market participants.
- The favorable technical environment supported municipal performance in June, resulting in the ICE BofA 1-12 Year Municipal Securities Index producing a +0.63% return, the best June return since 2016, while year-to-date performance climbed to +1.39%.

Source: Bloomberg; ICE; JP Morgan; MRSB; Refinitiv; SIFMA; 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.

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.

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).

The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index is a 7-day high-grade market index comprised of tax-exempt Variable Rate Demand Notes (VRDNs) with certain characteristics. The Index is calculated and published by Bloomberg. The Index is overseen by SIFMA's Municipal Swap Index Committee.