MARCH 2024

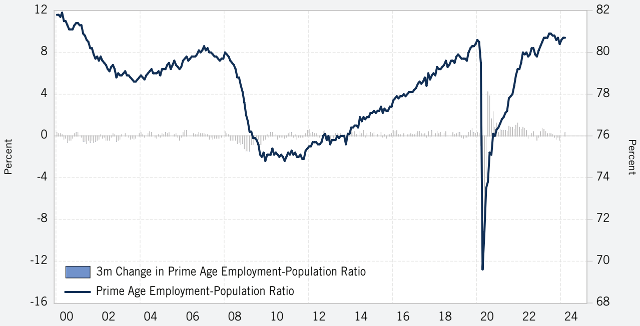
Spotlight on Global Credit

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

MACRO VIEWS

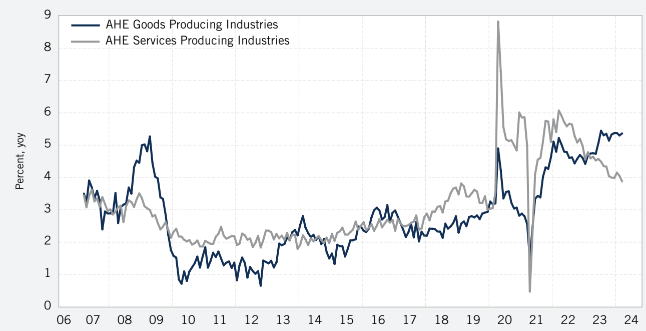
- Employment growth remained very strong in March, with the establishment survey showing the addition of 303k jobs. A key question around that is if the non-inflationary underlying run-rate has moved higher. The Congressional Budget Office has recently pointed out that immigration may have been substantially higher over the last couple of years. The prime-age employment to population ratio, one of our favorite measures of the labor market, points in that direction: it has remained flat over the last several months and is down from mid-23 peaks despite ongoing payroll strength.
- Average hourly earnings (AHE) also points in that direction, at least on the services side, with ongoing moderation in the year-over-year growth rate. Goods-producing industries continue to show very strong AHE, potentially making up for some of their relative laggard status over the last couple of decades.
- That's before the mini-cycle in manufacturing potentially ending. The Institute for Supply Management (ISM) Manufacturing Index has perked up notably since the fall, heading back above 50, the dividing line between expansion and contraction. It had sat below that for all of 2023—a mini-cycle similar to 2015-16 when manufacturing also lagged the overall economy.
- Almost everything for the economic outlook comes back to inflation, and specifically core personal consumption expenditures (PCE) inflation. For February it increased by 0.26% month-over-month, a tad over 3% on an annual basis. Core PCE inflation continues to run well below core consumer price index inflation by about 1 pp. It usually does run lower, but the current divergence remains at the upper end of what's normal.

Exhibit 1: Prime-Age Employment-Population Ratio Stable Into 2024



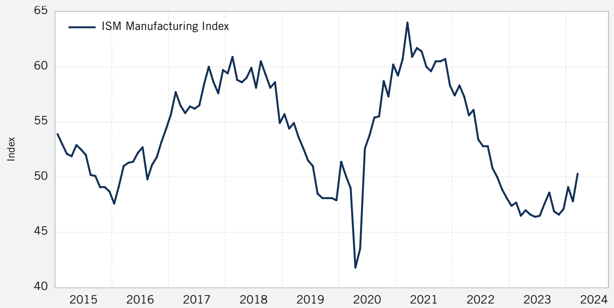
As of April 5, 2024. Source: Bureau of Labor Statistics, Haver Analytics, and author's calculations.

Exhibit 2: Services Account for Most of AHE Moderation; Goods Production Robust



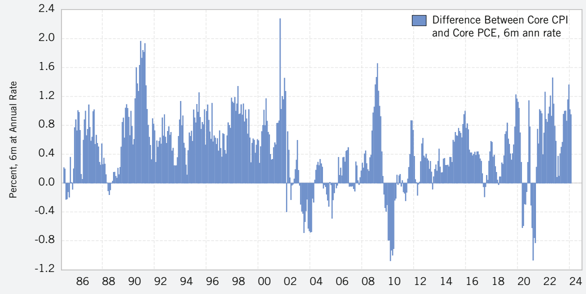
As of April 5, 2024. Source: Bureau of Labor Statistics and Haver Analytics.

Exhibit 3: ISM Suggest Manufacturing Mini-Cycle May Be Ending



As of April 5, 2024. Source: Institute for Supply Management and Haver Analytics.

Exhibit 4: Core PCE and Core CPI Divergence Remains at Wide Edge of Normal



As of April 5, 2024. Source: Bureau of Labor Statistics and Haver Analytics.

SECTOR UPDATES

Securitized Debt

- The securitized market was again very active in March. In particular, the asset-backed securities (ABS) market has seen 44% more issuance compared to the same time last year. All securitized sectors experienced spread tightening and positive excess returns for the month despite higher issuance.
- Commercial mortgage-backed securities (CMBS) had a good month as investors are becoming comfortable with certain property types such as retail, industrial, and hospitality. Yields and spreads offered are very competitive versus similarly-rated investment grade corporate bonds.
- March performance for agency mortgage-backed securities (MBS) was positive as rates were stable. Investors saw favorable supply technicals and spreads that were competitive versus alternatives.

Securitized Returns and Spreads

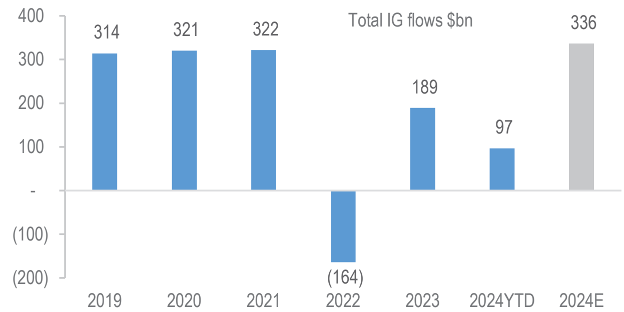
	Total Return – MTD through 3/31/2024	Spreads – 3/31/2024
Asset-Backed Securities	0.49%	54 basis points (bps)
Commercial Mortgage-Backed Securities	0.91%	98 bps
Mortgage-Backed Securities	1.06%	139 bps

Source: Bloomberg U.S. Aggregate Bond Index. Data as of March 31, 2024.

Investment Grade Corporates

- Technicals remain in the driver's seat. After overwhelming issuance through February, a lighter-than-average March and ongoing strong demand pushed spreads to two-year lows. Fundamentals remain benign and our outlook for technicals in April is constructive. Valuations are very challenging, with most industries trading at their respective tights, but the path of least resistance seems to be tighter still.

Annualized 2024 Inflows Are Back to 2019-21 Trend



Source: J.P. Morgan. Data as of March 22, 2024.

Municipal Bonds

- Lipper reported inflows of $2.4 billion for March, with not all funds reporting yet. Open-end mutual funds had inflows of $1.28 billion, while ETFs saw inflows of $1.14 billion. Year-to-date, all term muni fund flows are positive $9.9 billion, on open-end fund inflows of $9.9 billion and ETF outflows of $96 million.
- The Bloomberg Municipal Index posted a total return of 0.00% for March. The high yield municipal index generated a monthly return of 1.51%
- Year-to-date (through 3/31/24), municipals returned -0.39% while high yield munis returned 1.51%. March's total new issuance was at $38 billion.

High Yield Corporate Bonds

- The U.S. high yield market climbed 1.18% for the month, with late March spreads reaching levels not seen since late 2021. Positive macro data, strong earnings, and favorable technicals all contributed to performance. Fund inflows for March increased to $1.6 billion amid minimal new net supply – 72% of total issuance went toward refinancings as issuers remained focused on extending maturities. Credit quality has shown signs of stabilizing among larger, higher-rated firms as stronger economic growth translated into profit improvement, though smaller, lower-rated issues appear to be suffering more in the higher-rate environment. For more on high yield bonds, read Newfleet's High Yield Market Update.

High Yield Spreads and Yields

Spread to worst

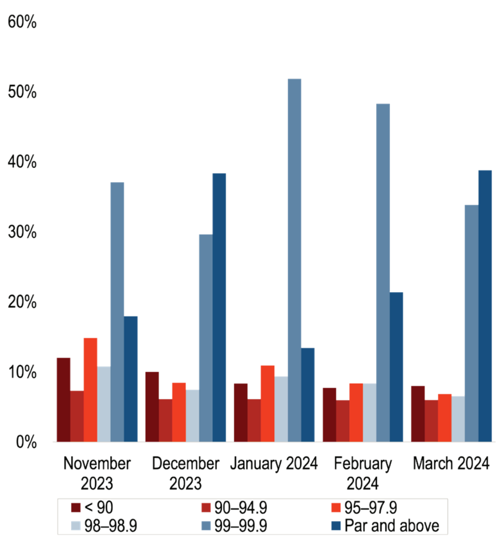
	JPM HY Bond Index	BB	B	CCC	NR	B/BB	CCC/B
31-Dec-19	391bp	232bp	370bp	964bp	860bp	137bp	594bp
31-Dec-20	410bp	296bp	436bp	729bp	702bp	140bp	293bp
31-Dec-21	346bp	238bp	393bp	650bp	402bp	155bp	257bp
30-Dec-22	490bp	312bp	520bp	6126	494bp	208bp	568bp
29-Dec-23	377bp	238bp	366bp	872bp	570bp	128bp	506bp
28-Mar-24	343bp	216bp	319bp	825bp	722bp	103bp	506bp
Change							
2023	-113bp	-74bp	-154bp	-216bp	76bp	-80bp	-63bp
Mar-24	-12bp	-13bp	-19bp	-6bp	81bp	-6bp	13bp
YTD	-34bp	-22bp	-47bp	-48bp	152bp	-25bp	0bp

Source: J.P. Morgan. Data as of March 28, 2024.

Bank Loans

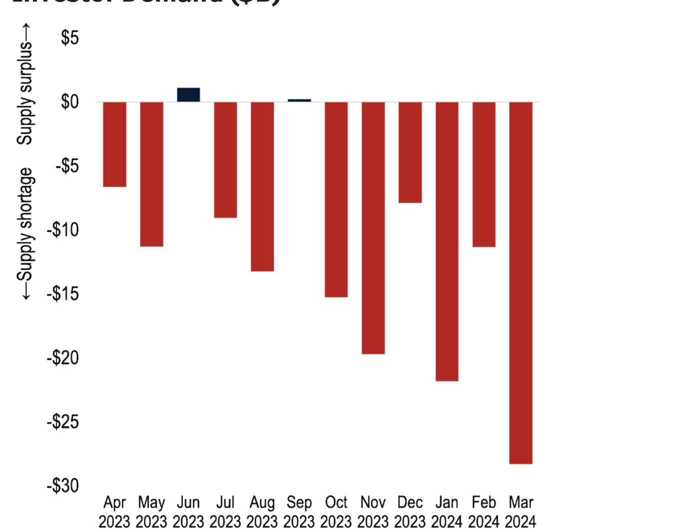
- Loans gained 0.85% in March, with risk outperforming quality largely due to higher coupons, but also investor appetite for discounted loans. The technical continues to be supportive – while M&A transactions are picking up, the lack of meaningful supply amid demand from retail and institutional investors has resulted in above-par loan prices, which allow borrowers to reprice and refinance existing debt. At a 9.8% yield to maturity, loans are retaining their coupon advantage, especially as rates stay higher for longer and the economy moves closer toward a soft landing or avoiding a recession altogether. For more on bank loans, read Newfleet's Bank Loan Market Update.

Distribution of Outstanding U.S. Leveraged Loan Prices



Source: Pitchbook LCD. Morningstar LSTA US Leveraged Loan Index. Data through March 31, 2024.

U.S. Leveraged Loan Market, Supply vs. Investor Demand ($B)



Sources: Pitchbook LCD. Data through March 31, 2024. Based on (a) new issuance minus repayments minus (b) CLO issuance and Prime Fund inflows.

Developed Markets

- After the messaging of the past two months, the markets stabilized around a collective view that the major central banks would likely deliver three interest rate cuts each in 2024. As of the end of March, the markets priced the Fed to cut rates by 67 bps in 2024, the ECB by 88 bps, and the Bank of England by 74 bps.
- Government bond yields were broadly stable in March. 10-year U.S. Treasuries ended the month at 4.20% versus 4.25% for the previous month's end. 10-year German Bunds ended the month at 2.30% and UK Gilts ended the month approximately 20 bps lower at 3.93%.
- This month, our chart highlights the extent to which bond market volatility has fallen recently. Bond volatility, as measured by the MOVE index, has fallen some 25% from the levels seen in the second half of last year as markets coalesced around a modest degree of central bank easing against a background of an expected soft landing.

MOVE Index

Source: Bloomberg LP; Newfleet Asset Management. Data through March 31, 2024.

Emerging Markets Debt

- EM bonds returned 2.09% for the month. While EM investment grade had a positive month (1.20%), it underperformed EM high yield (2.48%.) Local markets were the worst-performing sub-sector and returned -0.03%. Spreads on the index tightened to 342 bps, approaching tights seen last in 2021.
- The corporate market returned 1% for the month. The Fed's rates policy remains the macro focus, with the central bank's path and rate of easing driving global credit markets.
- A supportive environment remains for EM debt, with continued funding coming from bi- and multi-lateral lenders to countries with stretched fiscal and external balances. Although spreads continue to grind tighter, we remain favorable on overall EM value relative to improving EM fundamentals.

SECTOR ALLOCATION AND STRATEGY

- Increased exposure to bank loans and ABS in our more credit-focused multi-sector strategies.
- Funded bank loans with an equal reduction in corporate high yield.
- Funded ABS additions with an equal reduction in investment grade corporates.
- Strategies continue to have higher allocations to U.S. Treasuries.

Positive
Constructive
Neutral
Cautious
Negative

	Securitized				Municipals		Credit			Non-U.S.		
	ABS	MBS	RMBS	CMBS	TAX-EX	TAXABLE	IG CORP	HY CORP	BANK LOANS	EM HY	YANKEE GOV	NON USD
Fundamentals	Constructive	Neutral	Neutral	Cautious	Neutral	Neutral	Constructive	Neutral	Constructive	Constructive	Constructive	Neutral
Technicals	Neutral	Neutral	Constructive	Positive	Neutral	Constructive	Neutral	Positive	Positive	Neutral	Constructive	Neutral
Valuations	Constructive	Neutral	Neutral	Neutral	Cautious	Cautious	Cautious	Cautious	Constructive	Neutral	Neutral	Neutral

Newfleet's assessments of non-government spread sectors as of March 31, 2024. Assessments are determined by analyzing a sector's fundamental data, technical indicators, and relative valuations. Sectors (l to r): **Credit:** Investment Grade (IG) Corporate Bonds, High Yield (HY) Corporate Bonds, Bank Loans. **Securitized Product:** Asset-Backed Securities (ABS), Agency Mortgage-Backed Securities (MBS), Non-Agency Residential MBS (RMBS), Non-Agency Commercial MBS (CMBS). **Non-U.S.**: Emerging Markets HY, Yankee Government, Non-U.S. Dollar. **Municipals:** Tax-Exempt, Taxable.

CREDIT MARKET INDEXES

	Performance (%)				Analytics				
Index Name	MTD	QTD	YTD	12M	OAS (BPS)	YTW %	YTM %	Eff. Duration (YRS)	Spread Dur (YRS)
Bloomberg Global Credit Index (Hedged into USD)	1.26	0.40	0.40	6.63	127	5.16	5.17	5.64	5.69
Bloomberg U.S. Aggregate Corporate Index	1.29	-0.40	-0.40	4.43	89	5.30	5.30	6.94	6.98
Bloomberg U.S. Aggregate Index	0.92	-0.78	-0.78	1.70	39	4.85	4.85	6.17	6.05
Bloomberg U.S. HY 2% Issuer Capped Index	1.18	1.47	1.47	11.15	301	7.66	7.79	3.10	3.15
Bloomberg U.S. Intermediate Aggregate Index	0.78	-0.42	-0.42	2.30	35	4.83	4.83	4.47	4.34
Bloomberg U.S. Securitized Index	1.04	-0.91	-0.91	1.61	51	5.06	5.06	5.93	5.48
Credit Suisse Leveraged Loan Index	0.83	2.52	2.52	12.40	540	9.32	9.32	(0.05)	2.55
ICE BofA 1-3Y BB U.S. Cash Pay High Yield Index	0.77	1.40	1.40	7.96	138	6.18	6.27	1.43	1.54
ICE BofA 3 Mo Libor	0.46	1.34	1.34	5.36	-	5.34	5.34	-	-
ICE BofA U.S. Corporate & Government 1-5 Year Index	0.45	0.20	0.20	3.26	22	4.78	4.78	2.50	2.52
JPM CEMBI B D	1.00	2.32	2.32	9.17	242	6.94	6.99	4.08	4.19
JPM EMBI G	1.90	1.40	1.40	9.53	226	6.56	6.57	6.73	6.72
JPM EMBI G D	2.09	2.04	2.04	11.28	242	6.66	6.67	6.53	6.53
JPM GBI EM G D	-0.03	-2.12	-2.12	4.91	-	6.57	6.57	5.13	5.06

Data as of March 28, 2024. Source: Bloomberg, Newfleet Asset Management. For illustrative purposes only. See disclosures at end of material for additional information.

Authored by:

Newfleet Asset Management

Newfleet leverages the knowledge and skill of a team of investment professionals with expertise in every sector of the bond market, including evolving, specialized, and out-of-favor sectors. The team employs active sector rotation and disciplined risk management to portfolio construction.

This commentary is the opinion of Newfleet Asset Management. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

Bonds may offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a portfolio's fixed income securities will decrease in value if interest rates rise and vice versa.

Bank loans may be unsecured or not fully collateralized, may be subject to restrictions on resale, may be less liquid, and may trade infrequently on the secondary market. Bank loans settle on a delayed basis; thus, sale proceeds may not be available to meet redemptions for a substantial period of time after the sale of the loan.

Emerging markets securities may be more volatile, or more greatly affected by negative conditions, than those of their counterparts in more established foreign markets. Such securities may also be subject to Sanctions Risk.

The **Bloomberg Global Credit Index** (Hedged USD) tracks investment-grade government, corporate, agency, and mortgage-related bonds in markets outside the U.S. **Bloomberg U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. **Bloomberg U.S. Intermediate Aggregate Bond Index** measures securities in the intermediate maturity range of the U.S. investment grade fixed rate bond market. **Bloomberg U.S. Securitized Index** is a subset of the Bloomberg U.S. and includes mortgage-backed-securities (MBS), asset-backed securities (ABS), commercial mortgage-backed securities (CMBS) and covered assets. **Bloomberg U.S. Aggregate Corporate Index** is a broad-based benchmark that tracks the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. The **CBOE Volatility Index,** known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options. **ICE BofA 1-5 Year U.S. Corporate & Government Index Government Index** tracks the performance of U.S. dollar-denominated investment grade debt publicly issued in the U.S. domestic market, including U.S. Treasury, U.S. agency, foreign government, supranational and corporate securities. **J.P. Morgan GBI-EMGD** tracks total returns for local currency debt instruments issued by emerging markets sovereign and quasisovereign entities to which international investors can gain exposure. **J.P. Morgan CEMBI Index** tracks U.S. dollar-denominated debt issued by emerging market corporations. **J.P. Morgan EMBI Global Index** tracks the total return for the U.S. dollar-denominated emerging markets debt, including Brady bonds, Eurobonds, and loans. **The U.S. 3-Month LIBOR Index** represents the performance of the 3 Month London Interbank Offered Rate (LIBOR) Fixing for U.S. Dollar. The rate is an average derived from the quotations provided by the banks determined by the Intercontinental Exchange (ICE) Benchmark Administration. USD LIBOR is calculated on an ACT/360 basis. **The Credit Suisse Leveraged Loan Index** is a market-weighted index that tracks the investable universe of the U.S. dollar denominated leveraged loans. **The Bloomberg U.S. High-Yield 2% Issuer Capped Bond Index** is a market capitalization-weighted index that measures fixed rate non-investment grade debt securities of U.S. and non-U.S. corporations. No single issuer accounts for more than 2% of market cap. **The ICE BofA US Cash Pay High Yield Index** tracks the performance of U.S. dollar-denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the U.S. domestic market. **The ICE BofA 1-3 Year BB US Cash Pay High Yield Index** is a subset of the ICE BofA US Cash Pay High Yield Index including all securities with a remaining term to final maturity less than 3 years and rated BB1 through BB3, inclusive. **The Bloomberg Pan-European High Yield Index** measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona, and Swiss franc. Inclusion is based on the currency of issue, and not the domicile of the issuer. The indexes are calculated on a total return basis. The indexes are unmanaged, returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment. The commentary is the opinion of Newfleet Asset Management. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities. .

Investing is subject to risk, including the risk of possible loss of principal. Past performance is no guarantee of future results.