JUNE 2024

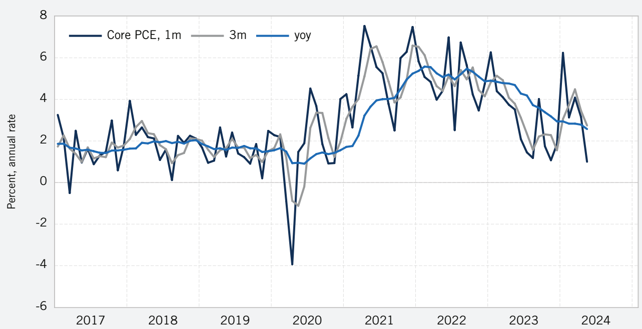
Spotlight on Global Credit

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

MACRO VIEWS

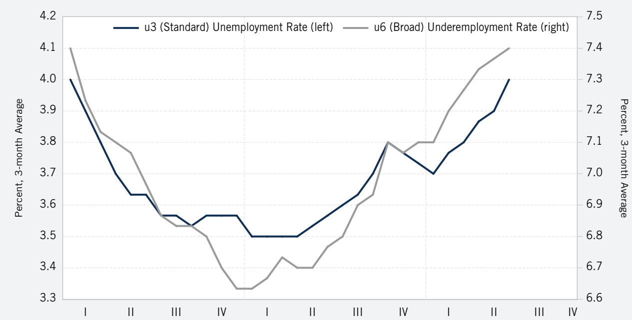
- Core PCE inflation moderated further—down to an annualized rate just below 1% for May—after the early 2024 rebound. Just as the past several months look to have overstated inflation, the current reading and perhaps the next several months likely understate inflation, potentially from lingering seasonal adjustment issues. That calls for a bit more attention than usual to the year-over-year readings, which have continued to slowly grind lower.
- The unemployment rate increased further in June, continuing the uptrend since the start of 2023, over which it has increased about a half percentage point. The broader u-6 unemployment rate, which also includes involuntarily part-time and discouraged workers, also continues to slowly drift higher. At this point, there has probably been enough labor market loosening, and for a softish landing it would be better for the unemployment rate to start moving sideways rather than up.
- Consistent with that, growth in 2024 continues to come in slower. Our bean count for GDP in Q2 is around 1.6%, which would put H1 at around 1-½%—a significant slowdown from just over 4% in H2-23.
- A major driver of the softer GDP for Q2 is the substantial widening of the real trade balance over the first two months of the quarter. This can be noisy—for instance, the jump in March 2023 followed by a cratering in April. But so far both months of Q2 point in the same direction.

Exhibit 1: After Early-2024 Rebound Core PCE Inflation Dipped Back Down



As of July 8, 2024. Source: Bureau of Labor Statistics and author's calculations.

Exhibit 2: Unemployment Drifting Higher, On Both Standard and Broad Metrics

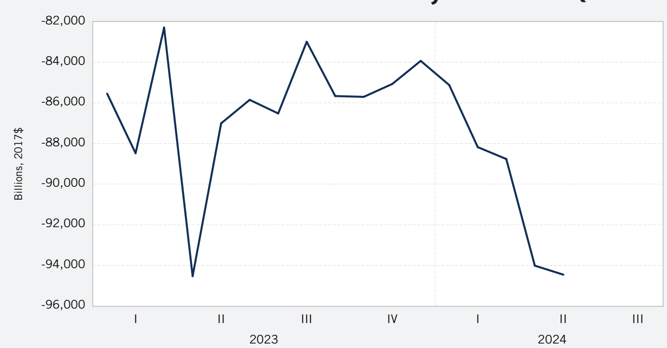


As of July 8, 2024. Source: Bureau of Labor Statistics, Haver Analytics, and author's calculations.

Exhibit 3: Growth On Track to Slow to About 1.5% for H1

As of July 8, 2024. Bureau of Labor Statistics, Haver Analytics, and author's calculations.

Exhibit 4: Trade Balance Substantially Wider into Q2



As of July 8, 2024. Source: Census Bureau, Haver Analytics, and author's calculations.

SECTOR UPDATES

Securitized Debt

- June was another strong month of issuance, keeping supply 35% ahead of last year's pace. Demand continued to be solid. Despite record year-to-date supply, there appear to be few signs of deal fatigue at the mid-point of the year. Most new issue transactions were executed at or near deal guidance. It is typical to see credit performance soften due to seasonal factors, but June credit reports saw some sequential improvement and signs of year-over-year stabilization in subprime auto asset-backed securities (ABS) performance. Recent improvement within consumer loan ABS performance for marketplace lending-backed pools continued into June as well.
- Commercial mortgage-backed securities (CMBS) had another positive return month at 0.94%, with spreads firm at the top of the credit stack. Subordinate CMBS classes tightened slightly on the month, reaching levels that appear full given the risks that remain in commercial real estate (CRE). The market is optimistic that CRE is near a bottom. Underwriting metrics for new issue transactions have been historically conservative, with very low underwritten loan-to-value ratios and debt yields that are significantly higher. An easing in rates will help alleviate investors' fears with respect to CRE losses. CMBS issuance was robust in June, while demand was sound, with most transactions priced to initial price talk levels.
- The mortgage-backed securities (MBS) sector had its second positive month of returns, increasing by 1.17%. MBS spreads are back to their average levels for 2024. Returns continue to be driven by movements in rates. Par coupon MBS is still screen-cheap compared to its investment grade corporate bond counterparts, but the remaining larger buyers lack conviction. Spreads within residential mortgage-backed securities (RMBS) were flat on the month.

Securitized Returns and Spreads

	Total Return – MTD through 6/30/2024	Spreads – 6/30/2024
Asset-Backed Securities	0.67%	56 basis points (bps)
Commercial Mortgage-Backed Securities	0.94%	98 bps
Mortgage-Backed Securities	1.17%	149 bps

Past performance is not indicative of future results.
Source: Bloomberg U.S. Aggregate Bond Index. Data as of June 30, 2024.

Investment Grade Corporates

- Spreads widened 9 bps in June, the largest monthly widening since March 2023, driven by weak economic data and a French political surprise. Yields declined 4 bps to 5.48%, and the negative correlation between rates and spreads was high during the month. Supply was slightly above the recent historical average, while flows were positive, but mild. The technical setup should improve in July/August as supply is typically light for the summer. Fundamental deterioration is worth monitoring as issuers are behaving more confidently and have acclimated to higher-for-longer rates. While recent economic data has been soft, earnings revisions heading into the second quarter reporting season have been favorable. This juxtaposition sets up the debate for the spread outlook for 2H24.

	June 2024	YTD
Total Returns	0.64%	-0.49%
Excess Returns	-0.56%	0.85%
Yield Δ	-0.04%	0.42%
Spread Δ	9	-5
Price Δ	$0.26	-$2.19

Past performance is not indicative of future results.
Source: Bloomberg Finance LP. Data as of June 30, 2024.

Municipal Bonds

- With many funds yet to report, Lipper reported outflows for June at -$173 million (-$950 million open-end funds/ +$778 million ETFs).
- Year-to-date, all-term muni fund flows are positive at $11.6 billion, on open-end fund inflows of $9.2 billion and ETF inflows of $2.4 billion.
- The Bloomberg Municipal Index posted a total return of 1.53% for June. The high yield municipal index generated a monthly return of 2.45%.
- Year-to-date (through 6/28/24), municipals returned -0.40%, while high yield munis returned 4.14%.
- June's total new issuance was at $49 billion, up 31% year-over-year.

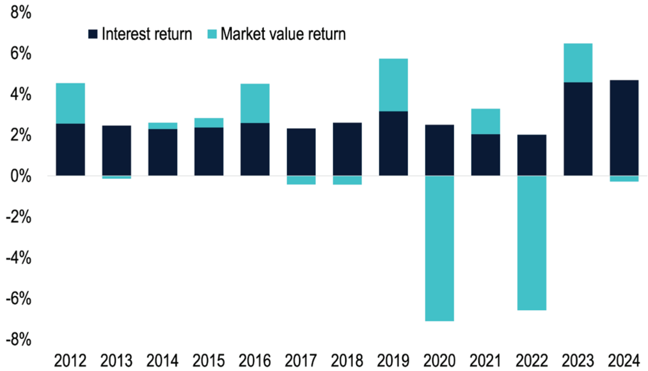
High Yield Corporate Bonds

- The U.S. high yield market continued to rally, returning 0.94% due to favorable economic data and strong technicals. As May inflation data surprised to the downside, market technicals were positive for the month, with fund flows staying strong and new issuance declining. Fund inflows amounted to $1.9 billion in June, increasing the second quarter inflow to $4.1 billion and the year-to-date inflow to $10.4 billion. New issuance declined 47% from the prior month with 33 bonds pricing for $18 billion. Credit quality continued to strengthen in June, with upgrades greater than downgrades for the third consecutive month and four of the last five months. Higher-quality credits continued to outperform with the rally in rates. For more on high yield bonds, read Newfleet's High Yield Market Update.

Bank Loans

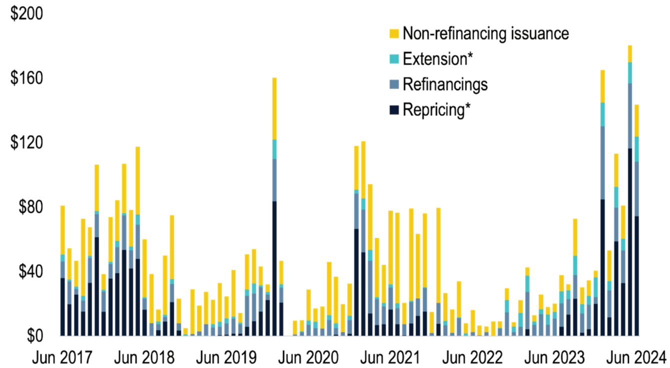
- Current coupon more than offset softer loan prices as demand for loans slowed on the back of lower inflation and cooling economic data, which together pulled forward rate cut expectations. Specifically, collateralized loan obligation (CLO) creation slowed as it became increasingly challenging to find appropriately priced loans in the secondary market while the primary new issue market remains thin. The busy refinancing/repricing calendar is also effectively pricing risk lower, which is reflected in lower prices. We expect refinancings to continue, with roughly 44% of the market still priced at par or higher. For more on bank loans, read Newfleet's Bank Loan Market Update.

U.S. Leveraged Loan Returns, January – June



Past performance is not indicative of future results.
Source: Pitchbook LCD. Morningstar LSTA US Leveraged Loan Index. Data through June 30, 2024.

U.S. Institutional Loan Activity ($B)

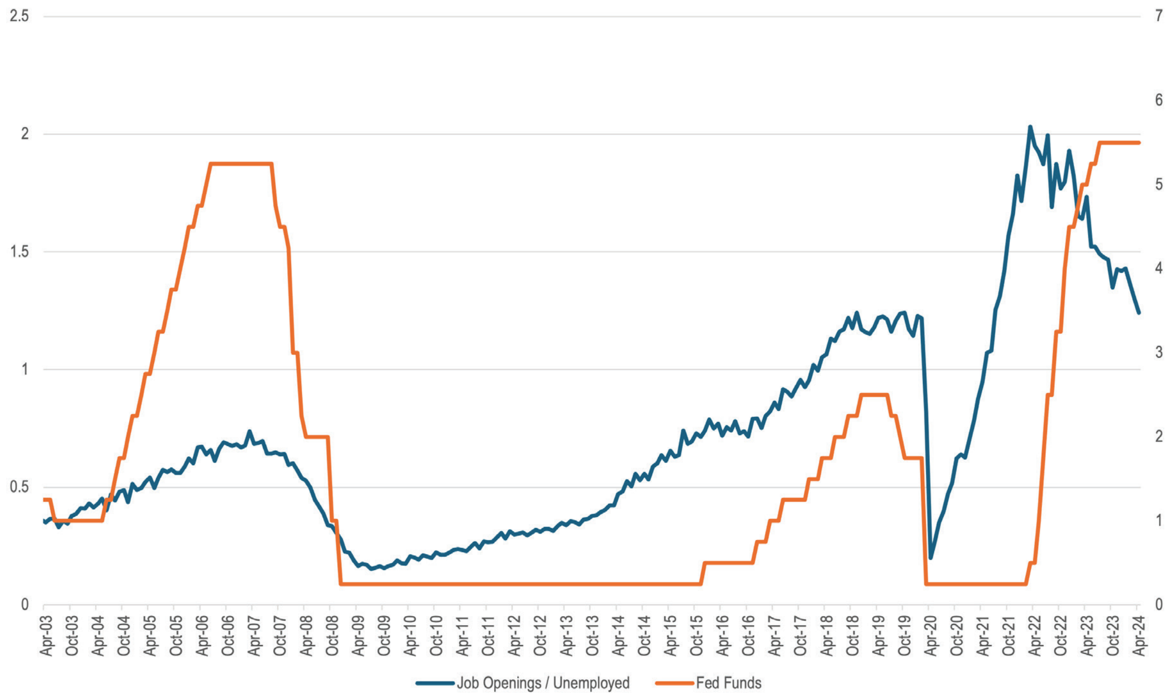


Sources: PitchBook LCD. Data through June 30, 2024.
*Reflects repricings and extensions done via an amendment process only.

Developed Markets

- The Federal Reserve (Fed) continues with its messaging around a delayed start to easing despite data falling on the softer side of expectations. As of the end of the month, the markets priced the Fed to cut rates by 45 bps over 2024—10 bps more than last month. The European Central Bank (ECB) did indeed cut policy rates by 25 bps in June, as previously signaled. Various ECB board members have reiterated that the markets should not get carried away with the expected pace of future cuts. The market currently prices 44 bps of cuts through year-end. The Bank of England is now priced to cut rates by 45 bps over the course of 2024 compared to 33 bps priced this time last month.
- Government bond yields moved modestly, reflecting fine tuning of central bank messaging. 10-year U.S. Treasuries ended the month at 4.40% versus 4.50% for the previous month end. 10-year German Bunds ended the month 16 bps lower at 2.50% and UK Gilts ended the month approximately 15 bps lower at 4.17%. 10-year inflation expectations as measured by inflation swaps fell 7 bps in the U.S. and 12 bps in the UK but were broadly unchanged in the Eurozone.
- This month our chart shows that despite the "be patient" rhetoric from the U.S., at least one measure indicates growing room to ease. Job openings/Unemployed, a measure of labor market tightness, is suggesting that some slack in the system may be emerging. When this happened in each of the last two cycles, the Fed eased.

Slack Emerging in the Labor Market?



Source: Bloomberg LP, Bureau of Labor Statistics, Newfleet Asset Management. Data as of June 30, 2024.

Emerging Markets Debt

- EM bonds returned 0.66% for June. The investment grade component of the EMBI Global returned 1.04%, while the high yield component underperformed with a 0.15% return. This leaves the year-to-date return on the index at 1.84%, with high yield still outperforming investment grade bonds by 571 bps.
- Spreads on the index widened 27 bps over the period to 344 bps. Venezuela's phased inclusion back into the index finished this month, and the country's weighting in the index is 73 bps, which contributed 21 bps to the overall index spread.
- EM corporates returned 0.90%, with investment grade and high yield bonds performing similarly — 0.92% and 0.88%, respectively. Local markets were the worst performing subsector with a -1.08% return for the month.
- EM bonds continued to suffer outflows in June, losing $900 million, bringing the year-to-date total outflow figure to $13 billion.

SECTOR ALLOCATION AND STRATEGY

- We decreased our MBS target by 1% across certain more credit-focused strategies for duration management, offset with a 1% increase in U.S. Treasuries.
- We increased our high yield target by 1% in certain shorter duration strategies to reflect actual exposure. About 1% of corporate high yield is EM, so some adds are reflected there. This was offset with a 1% decrease in 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	Neutral	Neutral	Neutral	Cautious	Neutral	Neutral	Constructive	Constructive	Constructive	Constructive	Constructive	Neutral
Technicals	Neutral	Neutral	Constructive	Constructive	Neutral	Constructive	Constructive	Positive	Positive	Constructive	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 June 30, 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	0.69	0.32	0.72	6.66	130	5.32	5.34	5.60	5.64
Bloomberg Intermediate Aggregate Index	0.92	0.46	0.04	3.55	35	4.97	4.97	4.45	4.33
Bloomberg US Aggregate Corporate Index	0.64	-0.09	-0.49	4.63	93	5.48	5.48	6.86	6.90
Bloomberg US Aggregate Index	0.95	0.07	-0.71	2.63	39	5.01	5.01	6.10	5.99
Bloomberg US HY 2% Issuer Capped Index	0.94	1.09	2.59	10.43	309	7.85	8.02	3.07	3.11
Bloomberg US Securitized Index	1.15	0.12	-0.79	2.38	51	5.23	5.23	5.93	5.52
Credit Suisse Leveraged Loan Index	0.27	1.86	4.44	11.04	514	9.39	9.39	-0.07	2.92
ICE BofA 1-3Y BB US Cash Pay High Yield Index	0.69	1.43	2.85	8.11	134	6.29	6.39	1.51	1.69
ICE BofA US Corporate & Government 1-5 Year Index	0.67	0.89	1.09	4.77	23	4.89	4.89	2.51	2.54
JPM CEMBI B D	0.93	1.49	3.85	9.30	230	6.95	7.01	4.06	4.17
JPM EMBI G	0.66	0.44	1.84	8.35	230	6.73	6.73	6.60	6.59
JPM EMBI G D	0.62	0.30	2.34	9.23	248	6.86	6.87	6.43	6.42
JPM GBI EM G D	-1.08	-1.63	-3.71	0.67	-	6.96	6.96	5.13	5.05
ML 3 Mo Libor	0.44	1.33	2.69	5.50	-	5.34	5.34	-	-

Past performance is not indicative of future results.

Data as of June 30, 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.

A **basis point (bp)** is equal to 0.01%. **OAS (option-adjusted spread)** is the difference between the yield of a security that pays fixed interest payments and the current U.S. Treasury rates, which represents the rate of return on a risk-free investment. **Yield-to-worst (YTW)** is the lowest yield generated, given the potential stated calls prior to maturity. **Yield to maturity (YTM)** is the total return anticipated on a bond if the bond is held until it matures. **Duration** is the interest rate sensitivity of a fixed income fund. For example, if a fund's duration is five years, a 1% increase in interest rates would result in a 5% decline in the fund's price. Similarly, a 1% decline in interest rates would result in a 5% gain in the fund's price.

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