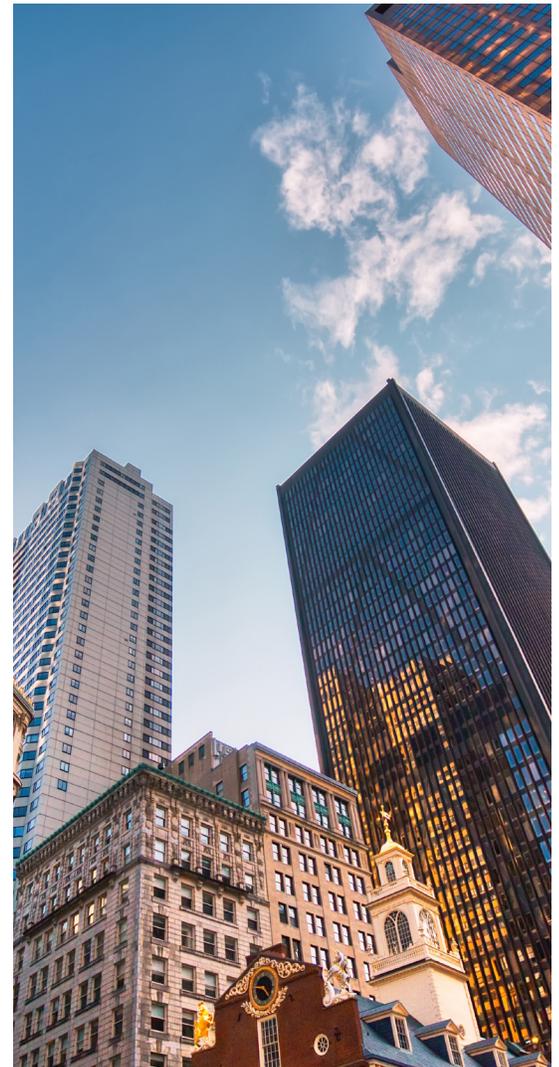


February 2022 Market Commentary



(The following commentary is a summary of discussions among members of the Breckinridge Capital Advisors Investment Committee as they reviewed monthly activity in the markets and investment returns. The members of the Investment Committee under the leadership of Chief Investment Officer Ognjen Sosa, CAIA, FRM, are Co-Head, Portfolio Management, Matthew Buscone; Senior Portfolio Manager Sara Chanda; Co-Head, Research, Nicholas Elfner; Co-Head, Portfolio Management, Jeffrey Glenn, CFA; Head, Municipal Trading, Benjamin Pease; and Co-Head, Research, Adam Stern, JD.)

Strategy and Outlook

- **U.S. Treasury Curve:** U.S. Treasury rates increased, and the curve flattened. (See Figure 1)
- **Municipal Market Technicals:** February issuance was \$26 billion, 5 percent higher than January. Monthly mutual fund outflows were more than \$7 billion in February.
- **Corporate Market Technicals:** Investment grade (IG) fixed-rate bond supply for February was \$85 billion. IG bond funds reported about \$1 billion of inflows during the month.
- **Securitized Trends:** Excess returns for securitized bonds were negative across most sectors and subsectors. Agency commercial mortgage-backed securities (ACMBS), and credit card and auto loan asset-backed securities (ABS) were among the better performers.

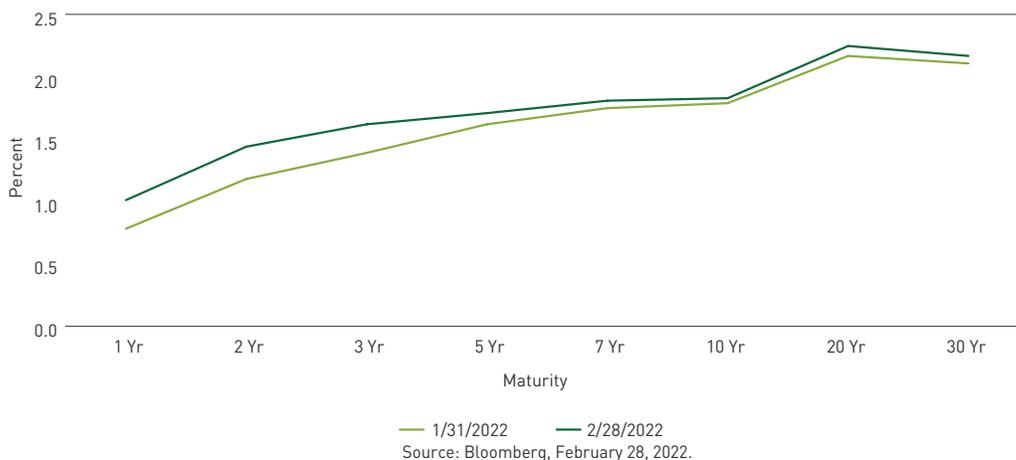


Market Review

FIGURE 1: U.S. TREASURY CURVE FLATTENED AS SHORTER AND INTERMEDIATE RATES GAINED

February saw heightened investor sentiment for an imminent federal funds rate increase, with the size of the bump (25 or 50 basis points (bps)), seemingly the remaining open question. The Federal Reserve (Fed) Open Market Committee is scheduled to meet on March 15 and 16. Complicating matters was Russia’s late-February invasion of Ukraine, which prompted financial sanctions against Russia that involved much of the global banking and broader economic sectors.

After rising and remaining higher for much of the month, Treasury yields fell at month end, reflecting increased investor desire for safe haven investments.



The Treasury curve flattened with 2-, 5-, 10-, and 30-year yields rising by 25, 11, 5 and 6bps, respectively. The spread between the 2- and 5-year spots on the Treasury curve narrowed by 15bps, while the 2s/30s curve tightened by 20bps.

At this point, events in Eastern Europe have not prompted any significant change in our strategies. For now, municipal bond credit implications are modest, as state and local government operating reserves have little-to-no exposure to Russian assets. Higher natural gas prices could impact some gas-reliant utilities, but this is a manageable risk, in our view. For most IG corporate bond issuers, borrowing costs remain around 3 percent, as 10-year Treasury yields have fallen in the days following Russia’s actions in Ukraine. The relatively low cost of debt capital should support issuance in the near-term. Some IG corporate issuers with exposure to Russia are reevaluating these assets, a process that may continue for a while. Our teams are carefully monitoring developments and assessing potential credit-related impacts to portfolios we manage.

Municipal Market Review

Increases in municipal bond yields were less substantial than Treasuries and the broad Bloomberg Municipal Bond Index outperformed the Bloomberg Treasury Index during in February (See Figure 2). Municipal/Treasury (M/T) ratios declined (See Figure 3). Municipal bond issuance was higher for the month.

Municipal yields at 2-, 5-, 10-, and 30-years rose by 16, 12, 3, and 3bps, respectively. Both the municipal 2s/10s and 2s/30s curves flattened by 13bps.



FIGURE 2: MUNICIPAL BOND YIELDS CONTINUED TO RISE IN FEBRUARY

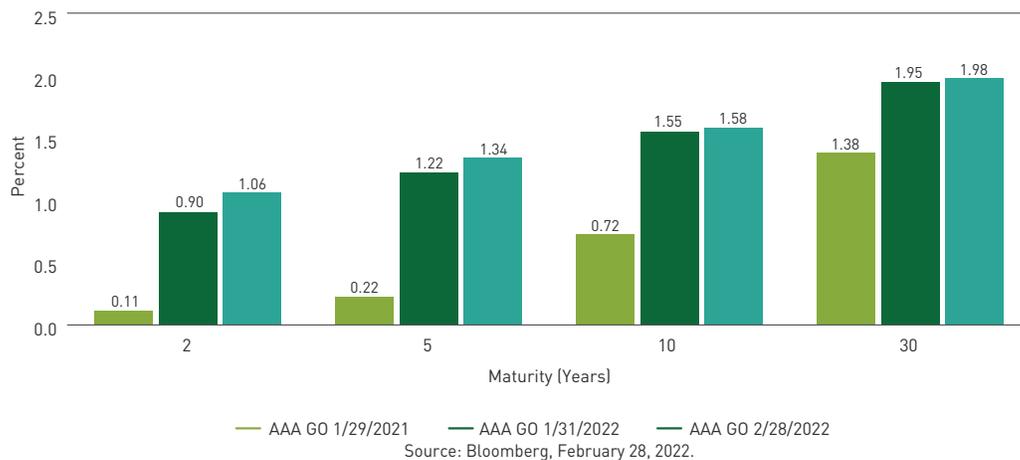
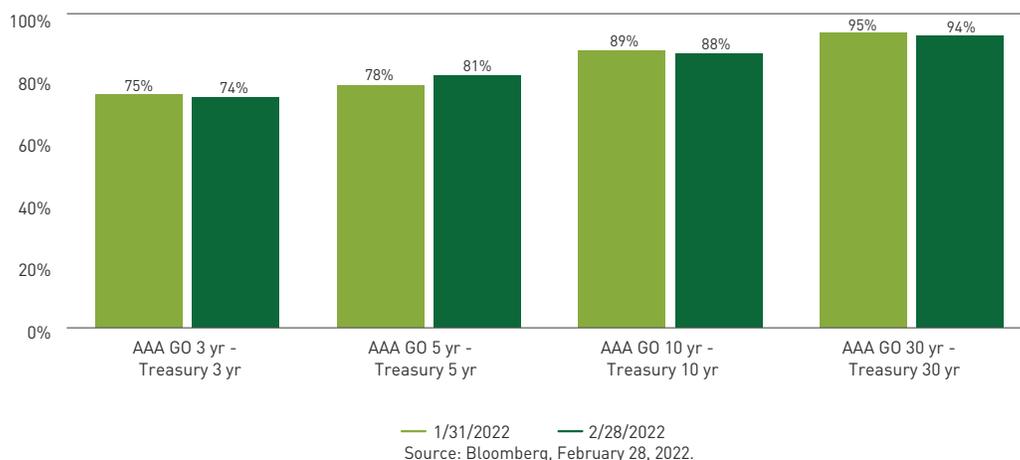


FIGURE 3: M/T RATIO CHANGES WERE MINIMAL IN FEBRUARY



M/T ratios fell between 1 to 3 ratios across the 2, 10 and 30-year spots while modestly increasing in 5 years.

February issuance of \$26 billion was 5 percent higher than the prior month but lower than the same month one year ago, per *The Bond Buyer*. Tax-exempt bond issuance was 7 percent lower than February 2021, while monthly taxable issuance was nearly 80 percent lower year-over-year.

Municipal bond fund flows were negative for a second consecutive month and accelerated. Investment Company Institute data show that in February fund outflows exceeded \$7 billion.

For February, the Bloomberg Managed Money Short/Intermediate (1-10) Index and the Bloomberg 1-10 Year Blend Index each fell 30bps, beating Bloomberg’s broad municipal bond and Treasury indexes. Shorter-maturity bonds tended to outperform longer maturities. The exception was the 5-year range which underperformed all spots but the long bond (22 years and longer). Municipal bonds with higher relative credit ratings outperformed bonds of lower quality.

Corporate Market Review

IG corporate bond spreads widened by 16bps in February, per Bloomberg data, to settle at 122bps. The Bloomberg U.S. Corporate Investment Grade (IG) Index fell 2.00 percent on a total return basis and 1.24 percent on an excess return basis compared with duration-matched Treasuries.



Bloomberg data showed that bonds rated AA+ fared the best across the investment grade quality spectrum, while BBB-rated bonds fared the worst. Shorter-maturity IG bonds turned in the best performance on a total return basis.

The best-performing sectors were Supranationals, Foreign Local Government, Airlines, Independent Energy, and Construction Machinery. The worst-performing sectors were Natural Gas, Gaming, Cable Satellite, Sovereigns, and Electric Utilities.

Index-eligible IG bond issuance in February, per Bloomberg, was nearly \$85 billion, a decrease from about \$180 billion in January. Net issuance, after redemptions, was a net negative \$1.5 billion, compared with \$90 billion in January. According to Citi Research and EPFR Global, IG bond funds reported approximately \$1 billion of inflows in February.

Securitized Market Review

Securitized bond spreads widened in February across MBS and ABS sectors, per Bloomberg data. The broad Bloomberg MBS Index had a negative excess return of 48bps. Within MBS, spreads widened the most among the lowest and highest coupon bonds. Among ACMBS, spreads also widened, delivering a negative excess return of 22bps. CMBS had a negative excess return of 64bps, per Bloomberg data

In the ABS market segment, spreads widened 16bps and 10bps for auto loan and credit card debt, respectively. Credit card-backed securities had a negative excess return of 25bps, while securities backed by auto loans had a negative 29bps in excess return.

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