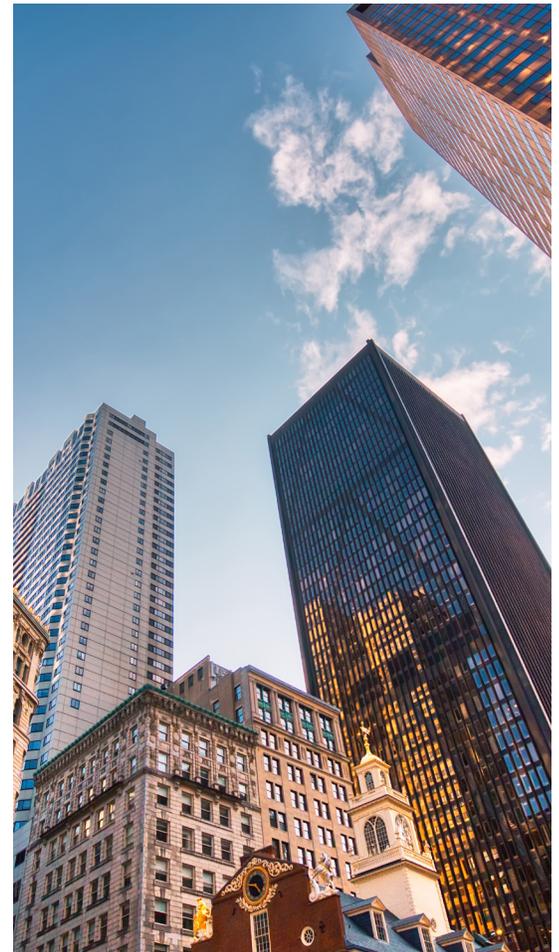


June 2022 Market Commentary



(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 across the curve, particularly at the short end (See Figure 1).
- **Municipal Market Technicals:** June issuance was \$27 billion, down 46 percent from the prior year. Monthly mutual fund outflows increased, reaching about \$10 billion.
- **Corporate Market Technicals:** Investment grade (IG) fixed-rate bond supply for June was \$92 billion. IG bond funds reported \$12 billion of outflows during the month.
- **Securitized Trends:** Agency Commercial Mortgage-Backed Securities (ACMBS) earned 32 basis points (bps) in excess returns for the month, while Non-agency CMBS were flat. The broad asset-backed securities (ABS) index also earned a positive excess return of 21bps.

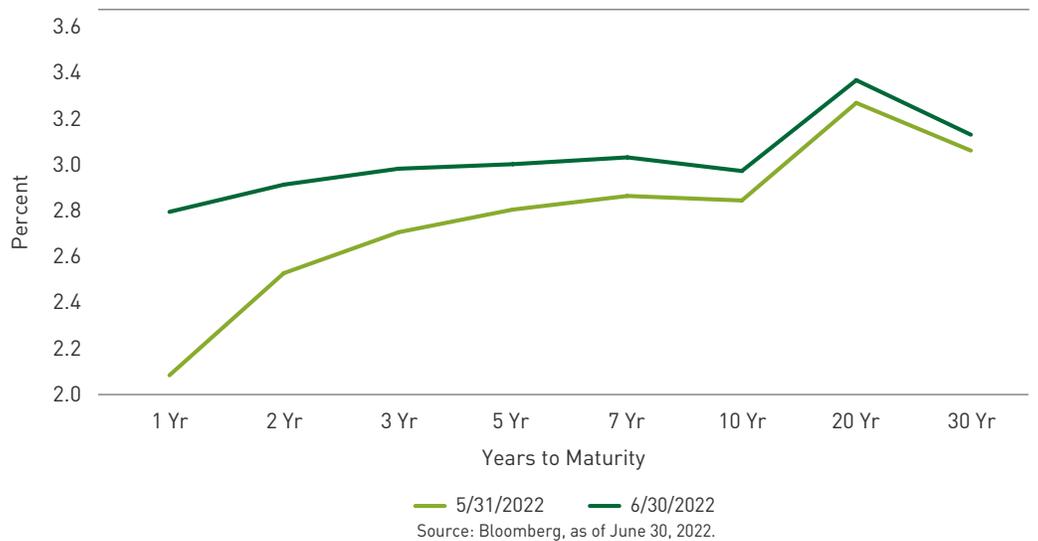


Market Review

The Treasury curve flattened during June as yields increased more significantly from 1 to 5 years when compared with increases realized from 10 years to 30 years (See Figure 1). The Federal Reserve (Fed) increased the federal funds rate by 75bps in June.

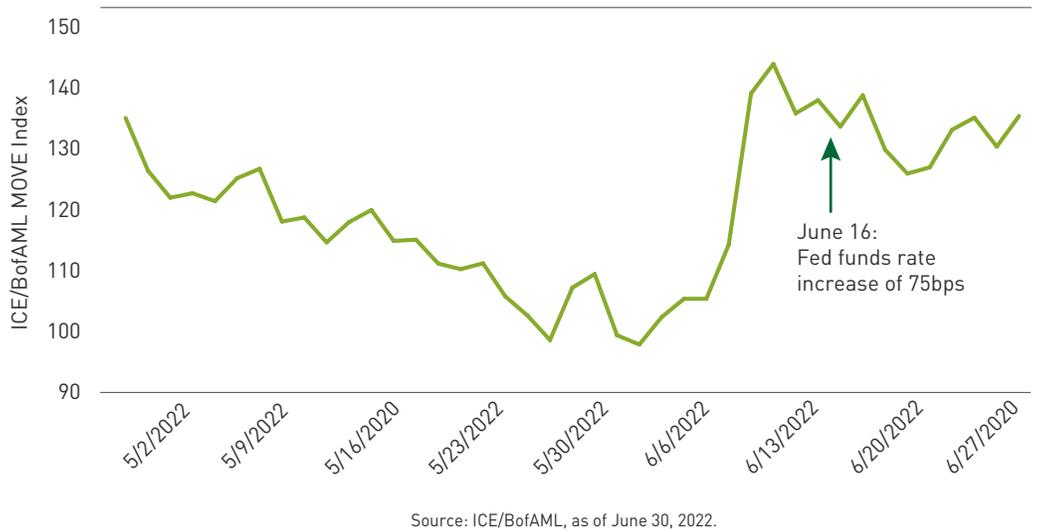
In combination with the Fed’s rate action, commentary from members of the Board of Governors clearly established a resolve to bring the rate of inflation under control, even at the risk of contributing to recessionary conditions. The effect was to launch another round of market volatility that dominated the month.

FIGURE 1: TREASURY RATES INCREASED, PARTICULARLY AT THE SHORT END OF THE CURVE



A measure of U.S. interest rate volatility, the ICE BofA Merrill Lynch Option Volatility Estimate (MOVE) Index,¹ jumped in June (see Figure 2), indicating investor concern about the pace and effect of the aggressive Fed interest rate policy. The Chicago Board Options Exchange’s Volatility Index (VIX), a measure of the stock market’s expectation of volatility based on S&P 500 Index options, jumped as well.

FIGURE 2: INTEREST RATE VOLATILITY JUMPED AND STAYED ELEVATED DURING JUNE





Treasury yields for maturities in the 2-, 5-, 10-, and 30-year ranges were higher by 43, 22, 19, and 12, respectively. Overall, the curve flattened. At the 3- and 10-year spots, for example, at month end the curve was mildly inverted, yielding 2.99 percent at 3 years and 2.98 percent at 10 years.

During June, the S&P 500 Index fell 7.8 percent. The Bloomberg U.S. Aggregate Bond Index declined 1.57 percent. Bonds with shorter maturities and the highest credit quality ratings had relatively better returns.

Inflation expectations fell during the quarter. The 5-year Treasury Inflation-Protected Security (TIPS) breakeven, a common measure of interest rate expectations, was 2.58 percent by the end of June, compared to 3.56 percent on March 31. We expect the Fed to maintain its efforts to lower the inflation rate with fed funds rate increases.

Many market commentators expect another 75bps increase at the Fed's July meeting and at least a 50bps increase at its September meeting. We are more circumspect. With no meeting in August, key data—Consumer Price Index, Personal Consumption Expenditures, and unemployment, to name three—could put the markets and the Fed in a much different position three months hence. Over the last several years, the Fed has expressed its intention to act based upon data, so the September meeting is difficult to predict at this time.

Consumer and business survey readings showed deteriorating sentiment as the quarter closed. The outlook for second quarter gross domestic product (GDP) was negative. As of June 30, the *GDPNow* model maintained by the Federal Reserve Bank of Atlanta estimated a negative 1.0 percent seasonally adjusted annual rate real of GDP growth for the second quarter. If realized, it would be the second consecutive quarterly negative result for GDP, which historically has been a definition of a recession.

In the view of the Breckinridge Investment Committee, inflation should moderate with growth slowing, as the Fed continues on its path to tighter monetary policy. The nature and length of a period of lower economic activity remains uncertain.

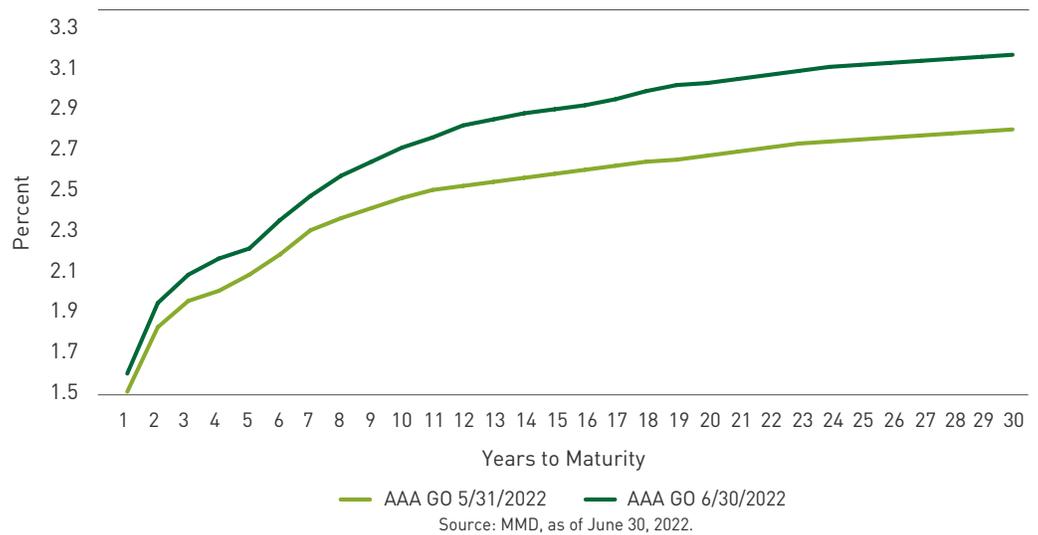
As the outlook for the economy in 2023 shifts from the higher growth levels of the last several years, solid credit fundamentals continue to characterize the corporate and municipal bond markets entering the second half of 2022, although they may have peaked in our view. To a greater extent than credit concerns, technical factors—bond issuance, fund flows, and liquidity—have influenced the markets during the first half of the year. Positive shifts in technical conditions—heightened issuance and buying activity—would augur well for relative value opportunities, in our view, as we seek opportunities to position our portfolios favorably in a changing market.

Municipal Market Review

Municipal yields increased across the curve (see Figure 3) and the shape of the curve grew steeper, most notably in the 7- to 10-year segment of the curve. Yields gained 12 and 13bps, respectively, in the 2- and 5-year maturities. In the 10- and 30-year maturities, the gain was more substantial, ending at 25 and 37bps, respectively. The curve steepened by 13bps between 2- and 10-year maturities, while the 2s/30s curve steepened by 25bps.

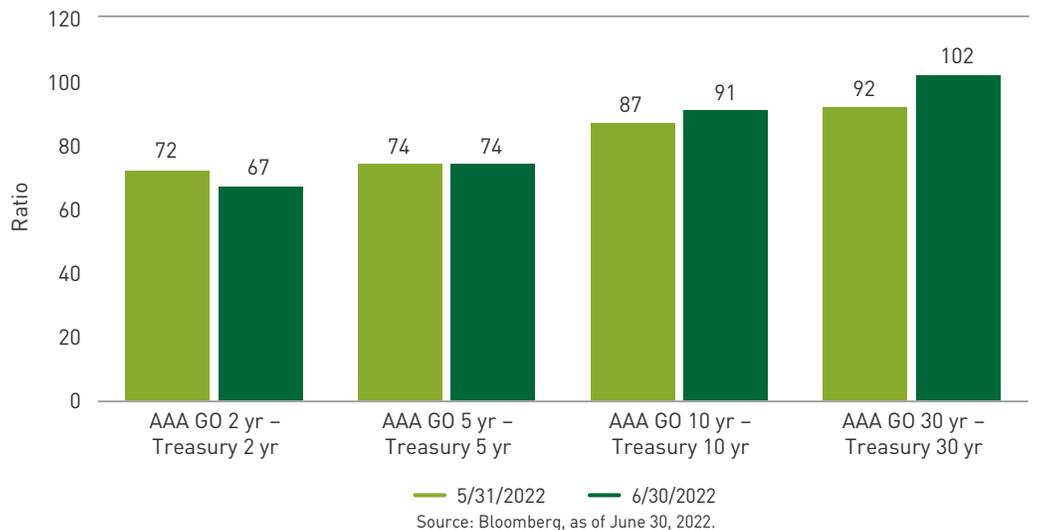


FIGURE 3: MUNICIPAL BOND RATES INCREASED IN JUNE



Municipal bonds underperformed Treasuries. Municipal/Treasury (M/T) ratios improved for intermediate and long maturities [See Figure 4].

FIGURE 4: M/T RATIOS IMPROVED IN INTERMEDIATE- AND LONG-TERM MATURITIES



June municipal bond issuance of nearly \$27 billion was 22 percent lower than May, and 47 percent lower than the same month in 2021, per *The Bond Buyer*. June tax-exempt bond issuance was 29 percent lower the same month in the prior year, while monthly taxable municipal bond issuance was nearly 87 percent lower year-over-year. In the higher interest rate environment this year, refundings are off almost 82 percent compared with a year ago. Asset outflows continued from municipal bond funds, topping \$10 billion, per Lipper, and total \$76 billion year-to-date.

The Bloomberg Managed Money Short/Intermediate (1-10) Index declined 0.51 percent during June and the Bloomberg 1-10 Year Blend Index fell 0.49 percent. Shorter maturity bonds outperformed longer maturity issues. Bonds with higher credit quality ratings performed best during the month.



Corporate Market Review

IG corporate bond spreads widened by 25bps, per Bloomberg data, ending June at 155bps. The Bloomberg U.S. Corporate Investment Grade (IG) Index declined 2.80 percent on a total return basis and delivered a negative excess return of 1.68 percent compared with duration-matched Treasuries. Bloomberg data showed that corporate bonds rated AA and A were the best performers during the month. Shorter maturity IG bonds outperformed longer maturity bonds.

The best-performing corporate sectors were construction machinery, consumer products, and supermarkets. The worst-performing sectors were tobacco, cable satellite, and paper, according to Bloomberg.

Index-eligible IG bond issuance in June, per Bloomberg, was \$92 billion, lower than May's issuance by about 14 percent. Net issuance, after redemptions, was \$26 billion. According to Emerging Portfolio Fund Research, IG bond funds reported approximately \$12 billion of outflows.

Securitized Market Review

MBS Passthroughs, per Bloomberg, had a negative excess return of 57bps. Among conventional MBS—those issued by the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Macs)—and MBS issued by the Governmental National Mortgage Association (Ginnie Mae), bonds with coupons ranging from 2 to 3 percent suffered the worst results.

The ABS market enjoyed a solid month of performance relative to other sectors of the bond market. ABS backed by auto loans (9bps) and those backed by credit card debt (47bps) both delivered positive excess returns for June.

Within CMBS, agency-CMBS outperformed (32bps excess return) as investors sought high quality sectors. Non-agency CMBS generated flat excess returns as spreads widened modestly.

For Investment Professional and Institutional Use Only.

#299991 (7/8/2022)

FOOTNOTES:

1. The MOVE Index measures U.S. interest rate volatility by tracking the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries. Historically, the index rises as concerns grow that interest rates are moving higher.

DISCLAIMER: The opinions and views expressed are those of Breckinridge Capital Advisors, Inc. They are current as of the date(s) indicated but are subject to change without notice. Any estimates, targets, and projections are based on Breckinridge research, analysis, and assumptions. No assurances can be made that any such estimate, target or projection will be accurate; actual results may differ substantially. There are risks associated with fixed income investments, including credit risk, interest rate risk, default risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. Past performance is not a guarantee of future results. Nothing contained herein should be construed or relied upon as financial, legal or tax advice. All investments involve risks, including the loss of principal. Investors should consult with their financial professional before making any investment decisions. While Breckinridge believes the assessment of ESG criteria can improve overall credit risk analysis, there is no guarantee that integrating ESG analysis will provide improved risk-adjusted returns over any specific time period. Some information has been taken directly from unaffiliated third-party sources. Breckinridge believes such information is reliable but does not guarantee its accuracy or completeness. Any specific securities mentioned are for illustrative purposes and example only. They do not necessarily represent actual investments in any client portfolio. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.
