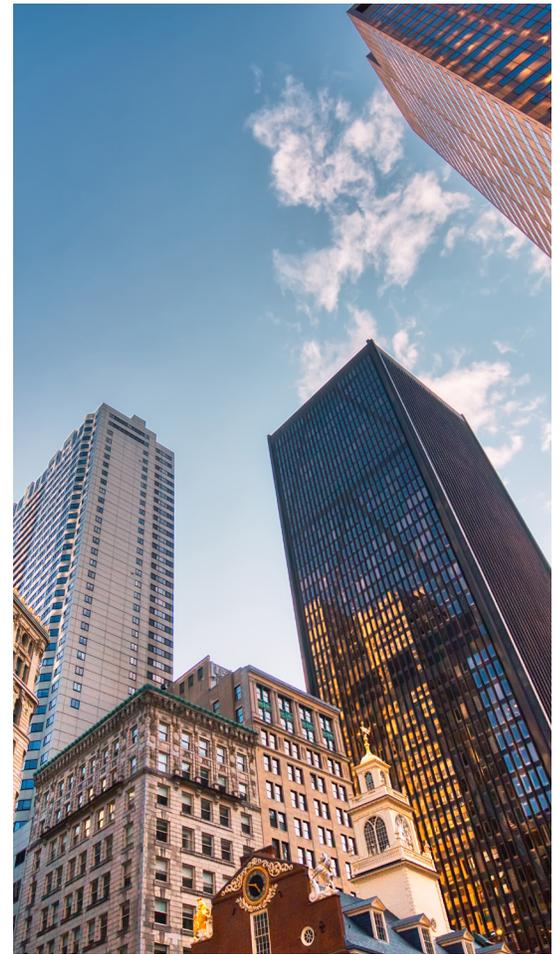


March 2022 Market Commentary



(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, the curve flattened, and inverted in some segments. (See Figure 1)
- **Municipal Market Technicals:** March issuance was \$39 billion, 18 percent lower than the same month in 2021. Monthly mutual fund outflows were more than \$6 billion in March.
- **Corporate Market Technicals:** Investment grade (IG) fixed-rate bond supply for March exceeded \$243 billion. IG bond funds reported \$13 billion of outflows during the month.
- **Securitized Trends:** Excess returns for conventional mortgage-backed securities (MBS) with higher coupons generally outperformed lower coupons. Credit card asset-backed securities (ABS) outperformed ABS backed by auto loans.



Market Review

Bond markets adjusted to a more hawkish Federal Reserve (Fed) during March. The central bank raised the fed funds rate by 0.25 percent, the first such increase in three years. The Fed signaled it would be aggressive in addressing inflation in future rate actions. Several forecasts show the Fed hiking by 50bps at their upcoming meetings.

Geopolitical tensions, specifically the Russian invasion of Ukraine, contributed to global instability, including supply chain concerns. As the quarter closed, a new COVID variant began pressuring economic and business activity in Asia and Europe.

Treasury yields increased across the curve, ending the month inverted at several points. (See Figure 1.) Yields for maturities for 2- and 5-year ranges were higher by 90 and 74 basis points (bps), respectively. Yields at 10 years were higher by 51bps and 29bps at 30 years.

FIGURE 1: TREASURY YIELDS INCREASED AND THE CURVE FLATTENED, INVERTING IN SEGMENTS



Risk assets rallied mid-month after the March Federal Open Market Committee meeting, even with a more hawkish tone from Chair Powell. The S&P 500 Index ended the month up 4 percent while corporate bond credit spreads ended the month tighter, per Bloomberg data.

Signs of a still growing economy in the U.S. offered investors some positive support. Unemployment numbers declined. Job openings and wages grew. Still, consumer sentiment measures wobbled in the face of rising prices. In our view, credit fundamentals in the corporate and municipal bond markets remained favorable.

Municipal Market Review

Municipal yields increased across the curve during March (See Figure 2) and the curve flattened. At month-end, the yield curve between municipal bonds maturing in 2 years and 10 years (the 2s/10s curve) was flatter by 10bps, compared to February 28, while the 2s/30s curve flattened by 15bps.

Municipal/Treasury (M/T) ratios rose across the curve, closing at or near year-to-date highs. (See Figure 3.)

Rising Treasury yields led to sizable outflows, about \$6 billion per Lipper, from municipal bond mutual funds. Municipal bonds underperformed Treasuries in March, per Bloomberg. Yields in the 2-year range closed the quarter up 70bps, while the 5-, 10-, and 30-year spots finished 63, 60, and 55bps higher, respectively, according to Bloomberg.



FIGURE 2: TREASURY YIELDS INCREASED AND THE CURVE FLATTENED, INVERTING IN SEGMENTS

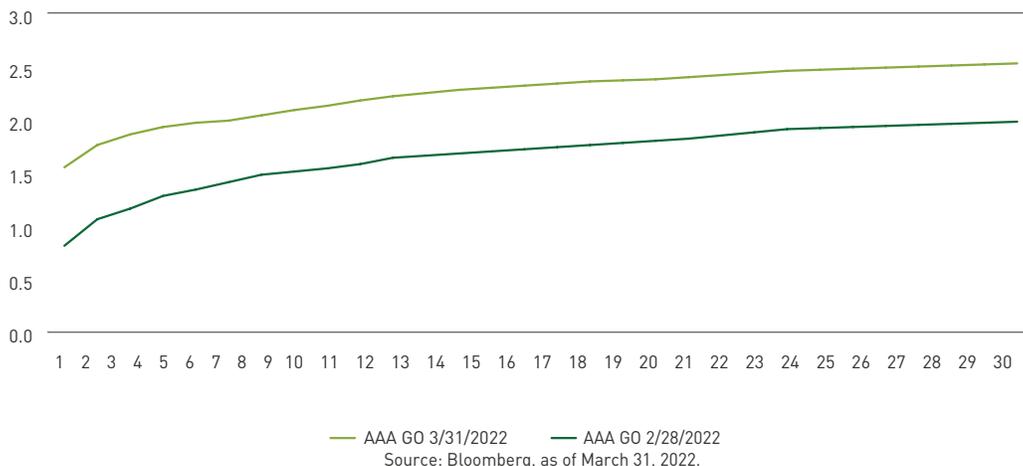
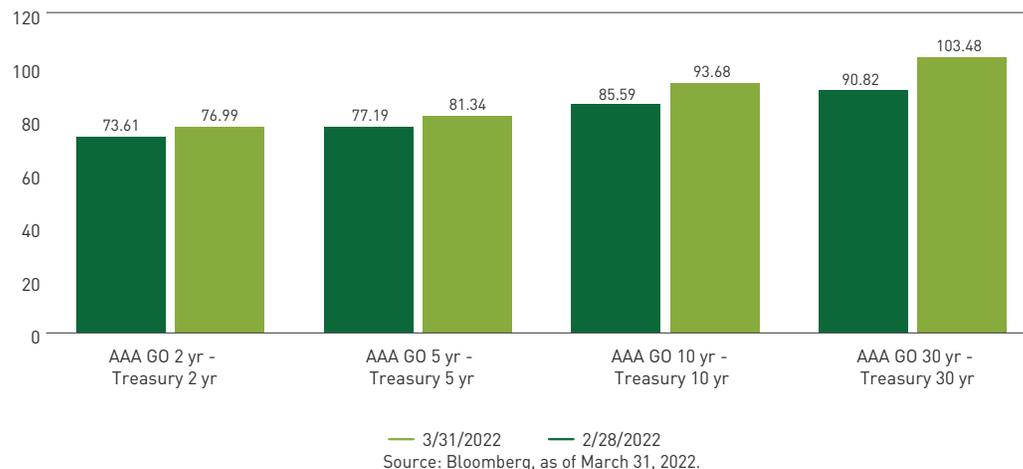


FIGURE 3: TREASURY YIELDS INCREASED AND THE CURVE FLATTENED, INVERTING IN SEGMENTS



March municipal bond issuance of \$39 billion was 32 percent higher than the prior month but 18 percent lower than the same month one year ago, per The Bond Buyer. Tax-exempt bond issuance was 19 percent lower than March 2021, while monthly taxable municipal bond issuance was 6 percent lower year-over-year. Year-to-date outflows from municipal bond mutual funds exceeded \$20 billion at the end of March.

For March, the Bloomberg Managed Money Short/Intermediate (1-10) Index fell 5.46 percent and the Bloomberg 1-10 Year Blend Index declined 4.76 percent. In this uncertain interest rate and economic environment, shorter-maturity bonds have outperformed longer maturities, while municipal bonds with higher relative credit ratings have outperformed bonds of lower quality.

Corporate Market Review

IG corporate bond spreads tightened by 6bps in March, per Bloomberg data, to settle at 116bps. The Bloomberg U.S. Corporate Investment Grade (IG) Index fell 2.52 percent on a total return basis and delivered a positive excess return of 0.86 percent compared with duration-matched Treasuries.

Bloomberg data showed that bonds rated BBB were the best performing along the investment grade credit quality spectrum, while bonds rated Aa+ were the worst performing. Shorter-maturity IG bonds realized higher relative returns compared with longer-maturity bonds.



The best-performing sectors were sovereigns, metals and mining, integrated energy, cable satellite, and oil field services, according to Bloomberg. The worst-performing sectors were foreign local government, airlines, financial companies, automotive, and supranationals.

Index-eligible IG bond issuance in March, per Bloomberg, was \$243 billion, a substantial increase from about \$85 billion in February. Net issuance, after redemptions, was a \$137 billion, compared with negative net issuance in February. According to Wells Fargo, IG bond funds reported approximately \$13 billion of outflows in March, bringing year-to-date outflows to approximately \$29 billion.

Securitized Market Review

Securitized bond spreads widened in March across MBS and ABS sectors, per Bloomberg data. The broad Bloomberg MBS Index had a negative excess return of 26bps. Within MBS, spreads widened the most among lower coupons. Ginnie Mae outperformed Conventional MBS (those backed by Fannie Mae and Freddie Mac) as Ginnie Mae securities are generally shorter duration all else equal.

Among commercial mortgage-backed securities (CMBS), Non-Agency CMBS had positive excess returns of 24 bps, per Bloomberg data. Agency CMBS spreads widened, delivering a negative excess return of 16bps.

In the ABS market segment, spreads widened 18bps and 5bps for auto loan and credit card debt, respectively. ABS backed by auto loans had a negative 33bps in excess return, while credit card-backed securities had a negative excess return of 3bps.

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