2019 | FIXED INCOME MARKET OUTLOOK

Executive Summary

The market themes and sources of volatility that were present in 2018 will carry forward to 2019. Investors will continue to wrestle with geopolitical developments, trade tensions, the pace of interest rate hikes by the Federal Reserve (Fed), slowing global growth, and the unwinding of quantitative easing programs by the world's major central banks. Even with these challenges, we believe that fixed income spread sectors can outperform U.S. Treasuries and other government-related debt in 2019.

GLOBAL MACRO EXPECTATIONS FOR 2019

- The U.S. economy will likely slow in 2019. We expect U.S. GDP growth for 2018 to be north of 3% alongside consensus estimates of 2.5% growth in 2019. We expect inflation to be subdued, housing to be stable, and the strength of the consumer to remain strong.
- Accordingly, we anticipate the Fed will raise interest rates one or two times in 2019, which is in line with the consensus view of two hikes.
- The 10-year U.S. Treasury yield will reside in a range of 2.50-3.25%, absent the occurrence of a significant catalyst that accelerates GDP growth and pushes yields higher.
- Major central banks will continue efforts to normalize monetary policy in 2019 based on incoming economic data and market developments rather than on a preset course of action.
- We expect China's economy to avoid a hard landing in 2019 with GDP growth of 6.0-6.2% supported by recent fiscal stimulus measures and more accommodative financial sector policies. Though China-U.S. tensions will be protracted, there are signs of improvement on trade. We think a full-blown trade war will be avoided although additional tariffs on Chinese goods are likely.

ELEMENTS OF OUR BROAD VIEW

- We favor bank loans, given their interest rate hedge and attractive "income carry" profile; out-of-index asset-backed securities and non-agency residential mortgage-backed securities; and defensive credits and financials in the corporate investment grade sector.
- We are cautious on emerging markets debt but it is more a question of "when" rather than "if" we rebuild our exposure. Idiosyncratic risk is elevated in the high yield market, which speaks to the importance of strong industry and issue selection in navigating the fixed income market at this point in the credit cycle.
- We are less favorable on U.S. Treasuries, agency mortgage-backed securities, and commercial mortgage-backed securities.
- Our current strategy with credit is to have exposure, but not maximum allocations given current valuations. As stated above, we expect spread sectors generally to outperform in 2019, with the potential for more upside if we see modest spread tightening.
- Given our outlook for the credit markets, the economy, and interest rates, we will continue to be buyers of spread sectors on any meaningful widening of spreads.

Spread Sector Outlook

CORPORATE HIGH YIELD

By Jonathan Stanley, CFA

The resilience of the high yield market was tested in the closing months of 2018 with numerous factors weighing on risky segments of the capital markets, as noted in the introductory section of our Outlook. Though high yield may struggle in 2019 amid more periods of volatility, there are pockets of opportunity that in-depth research can identify.

Issuer fundamentals are still solid as evidenced by Q3's strong earnings and sales growth following equally impressive results in Q2. Guidance, however, has been weaker as companies point to higher costs and the potential negative impact on sales due to the global trade impasse. Evidence of a slowing economy already is present among the more cyclical industries such as homebuilding, chemicals, and metals & mining. The trailing 12-month U.S. issuer-weighted default rate ended November at 2.9%. Moody's expects the rate to decline to 1.9% by the end of April 2019 and then edge up to 2.6% by the end of November 2019. While the default rate is still well below the historical average, an increase in costs or deterioration in lending conditions could adversely affect the default rate if the macro issues do not abate.

A positive supply/demand environment has existed over much of 2018, supporting the high yield market. Even with substantial outflows, the demand for high yield has outstripped supply. Light issuance has resulted in the largest supply shortfall in the past 15 years. The bank loan market appears to have been the preferred source of financing for leveraged issuers. Early forecasts suggest another light year of high yield issuance in 2019. Still, any softening in the bank loan market could see more issuance revert to the high yield market, potentially altering the supply/demand dynamic.

In terms of valuations, high yield has cheapened, though more recently. We entered 2018 with an index spread of 343 bps. Spreads reached their tightest level since the financial crisis on October 3 (+303 bps) before spiking to 426 bps on November 28. The current spread is still tighter than historical averages. Yields widened progressively throughout the year. Though the increase in U.S. Treasury rates initially pushed yields higher, credit risk has been the driver as the year came to a close.

Idiosyncratic risk, which we have been emphasizing for some time now, has taken center stage as we plod further along in the current credit cycle. Entering 2019, our focus is on higher quality credit tiers and lower beta industries such as healthcare, pharma, and utilities. We have also been maintaining a modest amount of cash and U.S. Treasuries to take advantage of any further market weakness. We have been rotating out of the chemical, retail, and metals & mining industries on fundamental concerns, and out of the communications space due to valuations, especially prior to the most recent bout of market weakness. We have been lightening up on the hard-hit energy space in anticipation that those bonds move lower and present an opportunity to reinvest later. We are also keeping an eye on those areas that have weakened on fears of a slowing economy and tariffs (e.g., housing and autos). Should some semblance of stabilization of the macro issues occur, opportunities could exist to take advantage of any further pullbacks should they materialize.

For most of 2018, the high yield market was relatively immune to both the external (trade rift rhetoric and rising interest rates) and internal (stretched valuation this late in the cycle) concerns. Adding the more recent oil sell-off and lackluster earnings guidance to this list, the upside potential for high yield going forward appears capped unless some of the aforementioned issues subside. All in all, we expect a positive but much-less-than-coupon return for high yield in 2019, which we will attempt to counter with positive industry and issue selection.

BANK LOANS

By Frank Ossino

With eight increases to the federal funds rate since late 2015, the rising rate environment and its impact on interest rate sensitive asset classes has, as expected, resulted in loan market relative outperformance in 2018. Going into 2019, the fundamental backdrop for bank loans remains in good shape as U.S. GDP growth in the 2-3% range is typically supportive for credit risk assets. Macroeconomic underpinnings including issuers and their revenue, earnings, and cash flow are healthy. With the default rate below 2% and forward looking default pressure indicators low (loans trading below 80 cents or issuers with thin debt service ratios), our default forecast for 2019 is 2%.

In terms of market technicals (supply/demand), the loan market has exceeded $1 trillion in size with trading volume exceeding $50B per month across over 1,500 issuers. Expectations for rising interest rates fueled strong demand from all channels, including retail investors as well as institutional buyers in both separately managed accounts and collateralized loan obligation (CLO) form. Foreign investors have also been well represented as bank loan buyers. A rising rate environment and still-favorable fundamentals should result in continued strong broad demand for the asset class. Early expectations are for consistent retail fund demand and roughly $100B of new demand from the CLO investor base.

On the supply side, we expect opportunistic refinancings to slow next year due in large part to the minimal near-term maturity profile of the market and aggressive repricings that have already taken place in 2017 and 2018. Equity/valuation volatility, large cash positions held at private equity firms, and open capital markets, could result in increased M&A volume. This coupled with continued demand to finance transactions via loans rather than using high yield bonds could result in the loan market becoming larger than the high yield market in 2019.

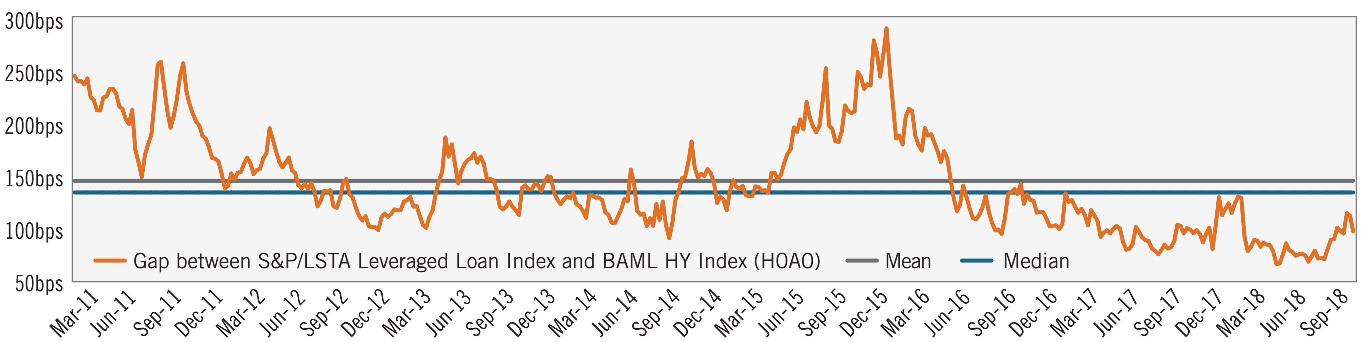
Loan market prices declined to 96.8 in November 2018, down 1.9% from the start of the year. Recent loan price weakness has reintroduced some price appreciation potential back into the loan asset class and possibly a dollar cost averaging opportunity where a still-healthy fundamental picture, interest rate hedge, and attractive “income carry” profile is still intact. Our base case gross risk-adjusted forecast of roughly 6.0% starts with an average three-month LIBOR rate of 3.00%. We also assume the spread component of coupon will remain flat at 3.30%, resulting in an all-in coupon of 6.30%. We then factor in the realization of 50 bps of price appreciation as well as an 80 bps loss rate (2% default rate x 40 bps loss). The upside to this forecast is driven by the velocity of interest rate increases (any increase in LIBOR against which loans are benchmarked), partially offset by the possibility of spread tightening. A dovish Fed (fewer rate increases) or slower growth environment could negatively impact our initial forecast. A total return of LIBOR plus spread provides investors an attractive long-term risk-adjusted return and may even provide some slight appreciation possibilities going into 2019.

In addition to the macro risks that can affect our bank loan outlook, energy-related volatility, telecom (declining wireline use), and retail (Amazon effect) are some industries we are watching closely. Re-underwriting cyclical (autos and chemicals) weightings is also prudent in our view. As it relates to the loan market specifically, loosening credit terms and investor protections, less capital structure subordination, and an increased cohort of lower-rated issuance could result in less than historical average recovery of principal on defaulted loans in the next cycle. Industries with thin tangible asset coverage (technology, retail, and services) could be impacted here. Accordingly, we are refreshing our investment thesis across borrowers and industries with an eye toward our industry weights, credit quality, and liquidity positioning as credit selection will be the primary differentiator next year.

HIGH YIELD AND BANK LOANS – CONVERGENCE OF TWO ASSET CLASSES

High yield bonds and bank loans (collectively known as leveraged finance) are two fixed income sectors that are converging as a single non investment grade asset class. Evidence of the convergence are, for example, the substantial increase in “covenant lite” shares for bank loans together with the meaningful increase in secured shares for the high yield market. Convergence provides an expanded universe that enables us to take advantage of differential relative value opportunities within industries, credit quality tiers, and across the capital structure. While we have considered above the prospects for high yield bonds and bank loans separately, we also will be looking to take advantage of nuances and shifts in their relationship. The exhibit below shows the yield differential between high yield bonds and bank loans, which can be used as a signal for adjusting the allocation between the two asset classes. In the 2015-2016 timeframe, the gap between bank loans and high yield was well above the median level, suggesting that high yield was the more attractive investment. Since early 2017, the yield advantage of high yield over loans has contracted considerably. Given the prospect of higher short-term rates in the near term, the argument can be made for shifting exposure slightly toward loans. As the trajectory of interest rates may change, we continue to examine the relationship for signals to adjust our allocation.

YIELD GAP BETWEEN BANK LOANS AND HIGH YIELD

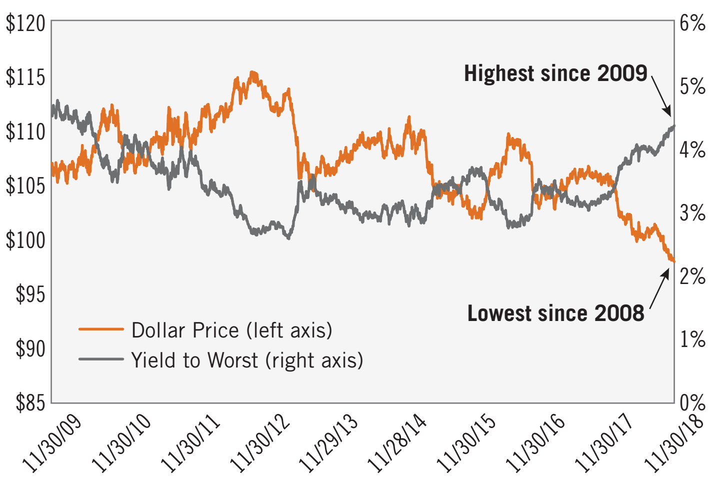


Past performance is no guarantee of future results.
As of 11/30/2018. Source: S&P LCD. Loan yields are to maturity prior to 2011.

CORPORATE INVESTMENT GRADE
By Ryan Jungk, CFA

We see an abundance of opportunities to generate positive excess returns in 2019 as the environment is highly favorable for credit selection. The investment grade (IG) market enters 2019 with yields at an eight-year high, spreads north of their three-and-five-year averages, and an average dollar price below par for the first time since 2009. From a high level, 2018's underperformance was broad based with little variation by risk level or industry grouping. While we certainly see more variation at sub-industry and credit-specific levels, such homogeneous moves in valuations are not accompanied by homogeneous moves in risks. This sets up the above-average level of selection opportunities.

U.S. CORPORATE YIELDS AND PRICES



Source: Bloomberg L.P. As of 11/30/18.

Fundamentals have been deteriorating as the cycle has aged. Low interest rates, shareholder-friendly activities, and debt-financed M&A have led to a tripling of the size of the IG market over the last decade. This growth in IG is proportionately much higher than that of the high yield market, which puts a higher emphasis on minimizing fallen angel risk. Looking forward to 2019, we expect fundamentals to stabilize as earnings growth should outpace debt growth.

We believe avoiding fallen angels will be a key to outperformance, but we are not altogether avoiding cyclicals or over-levered credits as we believe that outperformance will require a more nuanced view. Metals & mining, for example, is a highly cyclical industry where we still see potential value. The top five names in the metals & mining index (70% of par outstanding) have reduced debt by over 50% since 2015. These companies have de-risked significantly since the last time commodity prices declined, yet bonds are underperforming and metals & mining is now among the widest trading industries.

Debt-financed M&A deals have yielded some extravagant leverage figures and many credits are likely candidates for eventual downgrades, but we see value in some of the more defensive credits with high levels of free cash flow and a clear path to deleveraging. Another area we find compelling is domestic banking, where fundamentals have actually improved during this cycle as capital levels have increased alongside tighter regulations. Despite this, financials performed in line with industrials in 2018.

ASSET-BACKED SECURITIES (ABS)
By Nick Rinaldi

2018 was a mirror image of 2017 with respect to ABS total return performance. One-off ABS such as subprime auto, whole business, and unsecured consumer loans put forth solid total returns and excess returns versus U.S. Treasuries. As we close out 2018, although equity market volatility has picked up dramatically, ABS spreads have thus far hung in extremely well. Spreads are a little softer across the board with lower-rated credit underperforming higher-rated credit but that being said, this is coming off of historical tight spreads for most sectors within ABS. Fundamental consumer performance continues to be positive with unemployment near all-time lows and consumer confidence at the highest level over the last 18 years. In addition, according to the Federal Reserve Board, the Household Financial Obligation Ratio, which depicts a U.S. consumer's debt service propensity, is currently signaling that U.S. consumers are in a much better position to service their debt than before the financial crisis.

As we look forward to 2019, we continue to invest in the one-off ABS sectors described above and we are in the camp that those sectors provide us with the best risk-return tradeoff. We would characterize our current positioning as high quality and we look forward to taking advantage of any potential spread widening in 2019. Some examples of a 2019 opportunity set within ABS for investment grade paper and current market yields are as follows: subprime auto: 3.75% to 4.50%; whole business deals: 4.30% to 4.75%; and unsecured loans: 4.00% to 4.75%.

CONSUMER CONFIDENCE

Source: Bloomberg L.P.

COMMERCIAL MORTGAGE-BACKED SECURITIES (CMBS)

By Nick Rinaldi

Going into 2018, CMBS were at their 52-week tights on a spread basis versus U.S. Treasuries. During 2018, Newfleet reduced its exposure to CMBS in favor of ABS and residential mortgage-backed securities (RMBS) due to relative value. The CMBS sector performed admirably during 2018 from a spread perspective versus other investment grade product. However, during the fourth quarter, this sector has widened out a bit in sympathy with other spread product. Real estate fundamentals continue to remain positive albeit property net operating income growth on a year-over-year basis has slowed down to low single digits. Commercial real estate valuations continued to appreciate during the year as evidenced by the Real Capital Analytics National All-Property Index (RCA CPPI), which increased 4.9% year to date through the third quarter of 2018.

With respect to CMBS, from a relative value standpoint, we have continued to focus any new investments within the Single-Asset-Single-Borrower (SASB) space. SASB transactions afford us the ability to analyze one property type and invest deeper in the capital structure. The other option that SASB deals offer is the ability to invest in floating rate product. As the federal fund rate increases materialized in 2018, floating rate securities are providing a positive total return. We consider SASB deals to be the most compelling play within CMBS versus CMBS conduit deals. We like the SASB senior and subordinate tranches where detailed underwriting analysis is more attainable than multi-loan conduit transactions.

NON-AGENCY RESIDENTIAL MORTGAGE-BACKED SECURITIES (RMBS)

By Andrew Szabo, CFA

The RMBS market provides us ample investing opportunities along the credit and duration curves. We anticipate lower volatility across the securitized product sectors overall, including non-agency RMBS, as they are less sensitive to global macro events. The RMBS market has many sub sectors including non-qualified mortgages, seasoned performing loan pools, non-performing (in process of modification, foreclosure, or liquidation) and re-performing (modified) loan pools, jumbo prime, expanded prime, single-family rental securitizations, and mortgage credit risk transfer deals. Each of these subsectors offers different relative value plays versus traditional agency MBS and corporate bonds.

RMBS continues to be an important alpha-generating sector for Newfleet. We expect the technical (supply/demand) and fundamental environments to remain positive into 2019. Gross issuance is expected to top $100B, which will be the highest issuance since 2007, but overall net issuance is expected to be flat. The RMBS supply technical should fare much better than other securitized products.

Fundamentals remain positive though the housing market is slowing. 2019 market forecasts are for low single digit growth on the national indices. Mortgage credit remains very strong as underwriting standards loosen at a gradual pace but still remain conservative compared to pre-2008. Mortgage payment delinquencies remain at all-time lows given the backdrop of a strong economy and the stronger financial condition of borrowers.

AGENCY MORTGAGE-BACKED SECURITIES (MBS)

By Andrew Szabo, CFA

The agency MBS market had a volatile run in 2018 with spreads versus the U.S. Treasury curve exhibiting their sharpest intra-year move since the taper tantrum of 2013. The macro landscape as well as the supply/demand technical picture was extremely unfriendly to agency MBS in 2018. Interest rates and mortgage rates are at seven-year highs. As a result, the range-bound spread environment we had experienced over the last few years quickly changed.

With the Fed continuing their balance sheet unwind in 2019, we expect spreads to widen further. Coupled with continued rate hikes and market volatility, MBS need to find an equilibrium level that attracts the marginal buyer.

That being said, MBS are currently offered at some of the widest spread levels in years. Fed runoff is admittedly not good for MBS but it is potentially worse for credit sectors as credit tightened much more than MBS did since the Fed became an asset accumulator. Money managers have begun to gravitate toward agency MBS as a safer, lower beta, more liquid way to position portfolios in the fixed income markets amid the quantitative easing (QE) "unwind" while still picking up spread versus Treasuries.

Fundamentals are solid as prepayment risk is very low as mortgage rates drift higher and MBS move further out of the money. The mortgage market is in the steepest discount territory since 2007. Technicals present a bigger challenge but supply will remain on the lower side given higher rates allowing for investors to have less supply to absorb as the Fed moves away.

MBS relative value appears at or near historical levels versus corporates as we enter 2019. The excess spread offered by corporates over MBS is sufficient in a stable credit environment but if credit were to stumble in 2019, corporates should widen more than MBS. As a result, we expect a modest shift by investors from corporate bonds into MBS to start 2019 given recent market volatility.

CORPORATE EXCESS SPREAD VERSUS MBS

Source: Bloomberg L.P.

Our overriding concern within the securitized product sector going into 2019 is the health and welfare of the U.S. consumer. For relative value reasons, our overall weights within the broad sector are heavily skewed toward ABS and RMBS. Since the financial crisis, U.S. consumers have performed admirably with respect to servicing their debt. Specific to the sector, another area of concern are securitizations backed by newer collateral types that have not experienced a downturn. For example, due to a very market-friendly environment, there has been an increased amount of issuance within the unsecured consumer lending space, particularly of marketplace loans that are primarily originated over the internet. We continue to be skeptical as to how these loans will perform in an economic downturn.

We are also concerned with the potential for rising interest rates and how they will affect the mortgage and housing markets. Home price appreciation should continue to cool, and housing affordability will be challenging going into 2019 with mortgage rates near seven-year highs. A further and rapid rise in rates may have a deleterious impact on housing and MBS valuations. We are currently positioned in shorter average life securities that we feel are well enhanced from a credit perspective to minimize this concern. We will look to take advantage of this potential situation if prices overreact.

Though 2019 may be challenging for markets, Newfleet's experience and expertise in securitized product have demonstrated the ability to add value to portfolios through asset allocation and issue selection across the sector. The following table shows the contributions to return of the various components of the securitized sector in a representative account versus the Bloomberg Barclays U.S. Intermediate Aggregate Bond Index for 2018 through 11/30. With the usual caveat that past performance does not predict future returns, the outperformance suggests the potential for competitive returns.

SECURITIZED PRODUCT PERFORMANCE

Contribution to Return YTD through 11/30/18

	Securitized Sector (Newfleet)	Intermediate Index
Agency Debentures	0.00%	0.03%
MBS	-0.03%	-0.12%
ABS	1.12%	0.02%
CMOs	0.00%	0.00%
CMBS	0.17%	-0.05%
RMBS	0.50%	-0.59%
Total Return	**1.77%**	**-0.72%**

Past performance is no guarantee of future results.
Source: Bloomberg Barclays U.S. Intermediate Aggregate Bond Index. Securitized sector performance is that of a representative Newfleet account.

EMERGING MARKETS & NON-U.S. DOLLAR-DENOMINATED BONDS

By Peter Lannigan, CFA, and Daniel Senecal, CFA

2018 was a challenging year for emerging market (EM) fixed income assets which saw local market, hard currency sovereign, and corporate debt indices all post negative performance. The year started out adequately, but U.S. central bank tightening and heightened global trade tensions, in particular with regard to the U.S.-China relationship, eroded the global growth outlook over the course of the year and negatively impacted EM fundamentals. Meanwhile, strong U.S. economic performance drove the U.S. dollar higher versus most currencies. Credits like Argentina and Turkey with high fiscal and/or current account imbalances came under the most severe pressure during the course of the year while Mexico credit underperformed in the final quarter of the year as the new administration's policy veered to the left. In addition, oil-centric names like Nigeria and Ecuador also suffered outsized losses in the fourth quarter as oil prices fell.

The fundamental outlook for EM credit remains relatively sound as the expected slowdown in China and U.S. economic growth in 2019 should remain manageable and associated pressures viewed as cyclical phenomena. Defaults are expected to remain low in 2019 with some modest overall credit rating pressure likely. Sovereign hard currency index spread levels are wide of the long-term average and nearing the cheap end of the post financial crisis trading range with an all-in index yield and spread in excess of 7% and 400 bps, respectively. EM spread levels also look cheap relative to U.S. high yield on a historical basis.

Thus, the key question for 2019 is not if we should add EM exposure but when. Throughout 2018 we reduced our overall exposure to EM and simultaneously upgraded the credit quality. This leaves us with the capacity to buy EM and to enhance our yield by moving down the credit risk spectrum.

However, our concerns over macro issues leave us cautious for now. Key issues still center on downside risk to growth due to escalating trade tensions and higher interest rates and less technical buying support resulting from the removal of the Fed's extreme monetary accommodation. We will also monitor how the developments in other credit sectors impact emerging markets exposures.

We are monitoring politics and geopolitics at the country level as well, including Russia and the potential for additional U.S. sanctions; a shift to the left by Mexico's incoming president; and Argentina, where the government is likely to face social tensions as it continues to adhere to the tight fiscal and monetary policy program prescribed by its IMF agreement.

We have faced similarly difficult environments in the past. We view them as part of the EM landscape and they typically provide the best investment opportunities. None of them derail our long-term positive view on the EM debt asset class, but rather they just modify our timing.

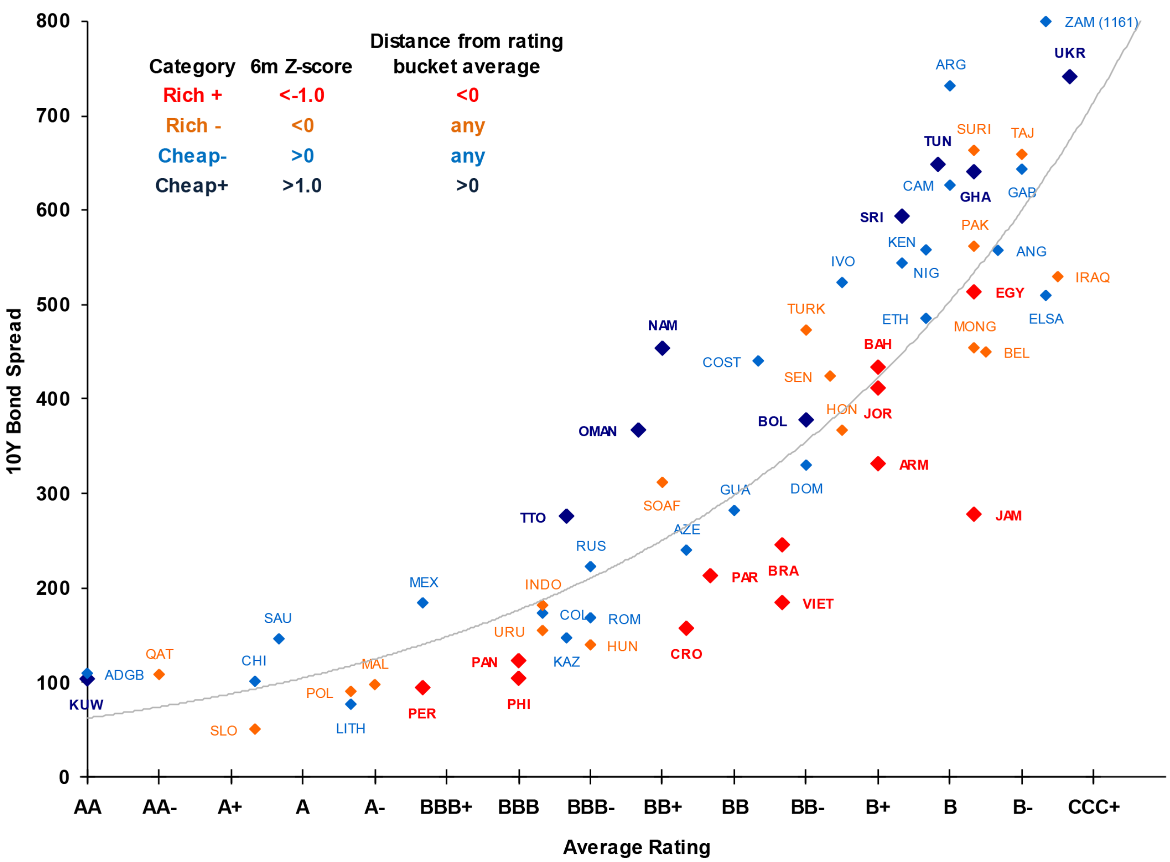
The exhibit below, an analysis of rich and cheap sovereign bonds, shows that there are multiple areas of potential value in EM that sound research can uncover.

TAX-EXEMPT MUNICIPAL BONDS

By Tim Heaney, CFA, and Lisa Leonard

As we head into 2019, our outlook for municipal bonds remains cautiously optimistic. The healthy economy, rising interest rates, and recent equity market volatility have seemed to moderate investor interest in municipal bonds. However, valuations of municipal bonds appear increasingly attractive given the rising yields in 2018, especially when considering their taxable-equivalent yields compared to other fixed income investments. Market volatility is expected to remain elevated as we close out 2018, given the uncertainty of U.S. Treasury bond yields, as the markets have priced in a higher probability that the FOMC will continue to raise the target federal funds rate. While rates are rising, they have been in this higher range before. This higher range occurred as recently as the fourth quarter of 2016, when expectations of faster growth and rising inflation following President Trump's election caused U.S. Treasury yields (and municipal yields) to surge. While overall market fundamentals have improved, we continue to believe that now is not the time to take on additional credit risk in the municipal market, especially with credit spreads at historically tight levels.

SOVEREIGN 10 YEAR BENCHMARK BONDS VS. RATINGS



Closest 10y bond is used for each sovereign, using spread vs. benchmark. Includes a broader set of EM sovereigns to those included in the standard EM indices, such as Qatar and Bahrain. Rich and Cheap status aim to give an indication of not only how each sovereign currently trades vs. the rating average but also how this compares to the six month history of the spread vs. the rating bucket. Source: Morgan Stanley Research.

Overall, the future technical picture for municipals should be supportive for relative valuations of municipal bonds as expectations of lower supply should help to offset weakening demand.

Credit fundamentals for the municipal bond market will remain challenged by high fixed cost burdens, including higher debt loads and underfunded pension liabilities. However, an improving job market and favorable economic conditions should help to moderate some of the fiscal strain of pension burdens. Despite the expected slowdown in the U.S. economy in 2019, the benefits of the recovery will continue to trickle down into the municipal markets. While there have been several highly publicized events of struggling municipal credits, with the latest coming out of Puerto Rico, we believe that municipal bonds remain one of the lowest-risk asset classes, with credit metrics for the majority of municipalities continuing to improve. This improvement is mostly due to a healthier tax base and better financial management, which has translated into higher revenues and replenished reserves.

Conclusion

While challenges always exist, we find the environment is favorable for fixed income spread sectors. Overall, company fundamentals are solid, technical conditions in the form of supply and demand are supportive, valuations have recently cheapened, and central banks, while beginning to tighten monetary policy, remain accommodative. Valuations appear fair by historical measures in most areas of fixed income, therefore issue selection continues to be key to outperformance over the next year. We expect that economic conditions will remain mixed and that total returns for fixed income will continue to be driven by income with some prospect for price appreciation.

As we go forward, we find it increasingly important to manage our risk exposures through rigorous credit research and position sizing in order to avoid deteriorating credits and to manage liquidity. We expect heightened volatility in 2019, which historically has allowed us to take advantage of dislocations given our tactical approach to the market and ability to invest across a broad range of fixed income asset classes.

As is true in most years, there are economic and political risks that could dampen the outlook for spread sectors and that deviate from our base case views. Our 2019 Outlook provides a guide for the year ahead but our process allows us to be flexible as situations change. It is incumbent on us as managers to uncover value in both industries and through issue selection (as well as countries in our EM exposure) as we strive to generate alpha for our clients regardless of the environment.

For more information about Newfleet's strategies for individual and institutional investors, please visit www.virtus.com or call 1-800-243-4361.

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.

IMPORTANT RISK CONSIDERATIONS: Credit & Interest: Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. **ABS/MBS:** Changes in interest rates can cause both extension and prepayment risks for asset- and mortgage-backed securities. These securities are also subject to risks associated with the repayment of underlying collateral. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **Municipal Market:** Events negatively impacting a municipal security, or the municipal bond market in general, may cause the fund to decrease in value. **Bank Loans:** Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and/or trade infrequently on the secondary market. Loans can carry significant credit and call risk, can be difficult to value and have longer settlement times than other investments, which can make loans relatively illiquid at times.

The **Bloomberg Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. **Bloomberg Barclays U.S. Treasury Index** measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. 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 index is calculated on a total return basis, is unmanaged and not available for direct investment. The unmanaged index returns do not reflect any fees, expenses, or sales charges. The **Bloomberg Barclays U.S. Intermediate Aggregate Bond Index** measures securities in the intermediate maturity range of the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **S&P/LSTA Leveraged Loan Index** is a daily total return index that uses LSTA/LPC Mark-to-Market Pricing to calculate market value change. On a real-time basis, the index tracks the current outstanding balance and spread over LIBOR for fully funded term loans. The facilities included in the Index represent a broad cross section of leveraged loans syndicated in the United States, including dollar-denominated loans to overseas issuers. The **ICE BofAML US High Yield Index (HOAO)** tracks the performance of U.S. dollar-denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below investment grade rating. Original issue zero coupon bonds, 144a securities, both with and without registration rights, and pay-in-kind securities, including toggle notes, qualify for inclusion. Eurodollar bonds, taxable and tax-exempt U.S. municipal, warrant-bearing, DRD-eligible and defaulted securities are excluded from the Index. The indexes are calculated on a total return basis with net dividends (and capital gains if applicable) reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges and they are not available for direct investment. **LIBOR:** London Interbank Offered Rate.

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