

# IS NOW AN UNPRECEDENTED MOMENT IN THE FIXED INCOME MARKET?

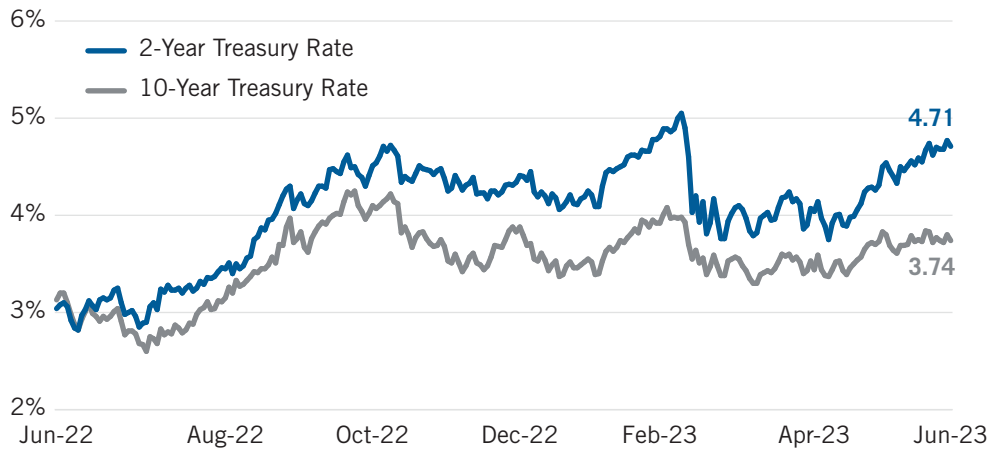


It's natural to draw parallels to momentous times when things are uncertain. "What does this market remind you of?" is, by far the question asked most. Common answers are 1994's hiking cycle and the late 1970s high interest rates, but the reality is, we've never seen a market quite like the one we are facing now. The post-pandemic market has its own shape, challenges, and opportunities.

## The yield curve has been inverted for over a year.

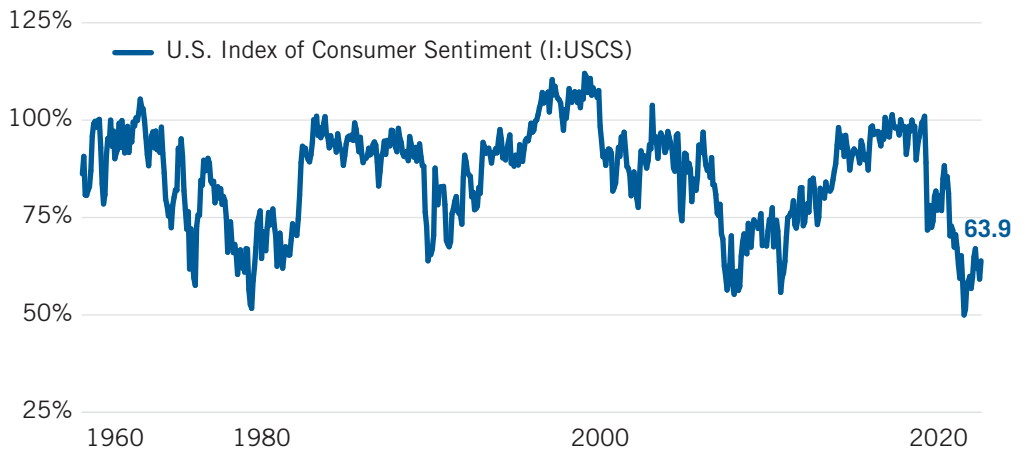
Inversions have typically been a harbinger of a recession, which weighs on consumer and investor sentiment.

### 2- AND 10-YEAR TREASURY YIELDS



Past performance is not indicative of future results. As of 6/30/23. Source: YCharts.

### CONSUMER SENTIMENT

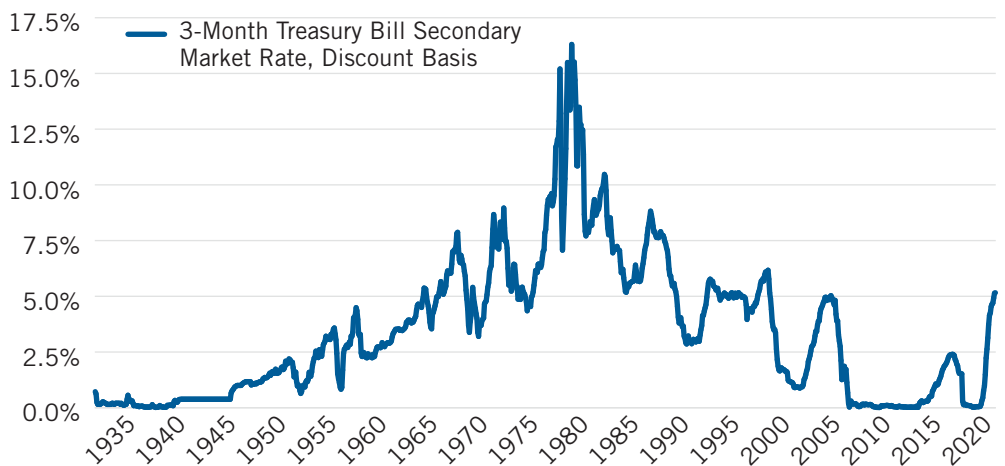


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## The interest rate environment that preceded the pandemic was not normal.

It was a decade of low rates not seen since the 1930s-40s. Pundits chirped about zero interest rate policy (ZIRP), and until the current hiking cycle, a fixed income manager with a 10-year track record had only experienced an ultra-low-rate environment.

### 3-MONTH TREASURY BILL YIELDS REGAIN RESPECT



Past performance is not indicative of future results. As of 6/30/23. Source: FRED® Federal Reserve Economic Data.

## Uncertainty Breeds Opportunity

For long-tenured, professional asset managers, uncertainty can create pockets of opportunity across fixed income sectors. We believe that value has been restored to the fixed income market with higher yields and attractive valuations in most sectors.

## FIXED INCOME SECTOR YIELDS, PRICE, AND PERFORMANCE

Sector	Yield <sup>1</sup>	Average Price <sup>2</sup>	YTD Total Return	12 Month Total Return
IG Corporates	5.48	90.6	3.2	1.5
ABS	5.52	96.1	1.7	1.2
Agency MBS	4.78	88.4	1.9	-1.5
CMBS	5.69	89.3	1.2	-1.7
High Yield	8.50	89.0	5.4	9.1
Bank Loans <sup>2</sup>	10.53	94.8	6.4	11.8
EM	7.65	84.5	3.8	5.9
Munis-IG	3.52	101.5	2.7	3.2
Agg	4.81	89.8	2.1	-0.9

Past performance is not indicative of future results. As of 6/30/23. Source: Newfleet Asset Management. <sup>1</sup>Yield to worst for all indices, bank loans is yield to maturity. <sup>2</sup>Average price is calculated by adding a bonds face value to the price paid for it and dividing the sum by two.

**The bottom line: we believe opportunities for both income and total return remain in the market—despite uncertainty—and the wisdom of managers with decades of experience will grow in importance. To learn more, please contact us at 800-243-4361 or visit [virtus.com](https://virtus.com).**

### IMPORTANT RISK CONSIDERATIONS:

**Credit & Interest:** Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to 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 non-repayment of underlying collateral, including losses to the fund. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the fund to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Municipal Market:** Events negatively impacting a municipality, 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 are subject to credit and call risk, may be difficult to value, and have longer settlement times than other investments, which can make loans relatively illiquid at times. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

### INDEX DEFINITIONS

IG Corporates represented by **Bloomberg U.S. Corporate Total Return Value Unhedged USD** measures the investment grade, fixed-rate, taxable corporate bond market. ABS represented by **Bloomberg U.S. Aggregate ABS Total Return Value Unhedged USD** which measures the ABS component of the U.S. Aggregate Bond Index. The ABS component is comprised mostly of three subsectors: credit cards, autos, and utility. Agency MBS represented by **Bloomberg US MBS Index Total Return Value Unhedged USD** measures the agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae, Fannie Mae, and Freddie Mac. CMBS represented by **Bloomberg US CMBS Investment Grade Index** measures the market of US Agency and US Non-Agency conduit and fusion CMBS. High Yield represented by **Bloomberg U.S. Corporate High Yield Total Return Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Bank Loans represented by Morningstar LSTA US Leveraged Loan Index measure the performance of the 100 largest facilities in the US leveraged loan market. EM represented by **J.P. Morgan Emerging Markets Bonds Index (EMBI)** measures tracks the total return for the U.S. dollar-denominated emerging markets debt, including Brady bonds, Eurobonds, and loans. Munis – IG represented by **Bloomberg Municipal Bond Index Total Return Index Value Unhedged USD** measures the long-term tax-exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Agg represented by **Bloomberg U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. 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.

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