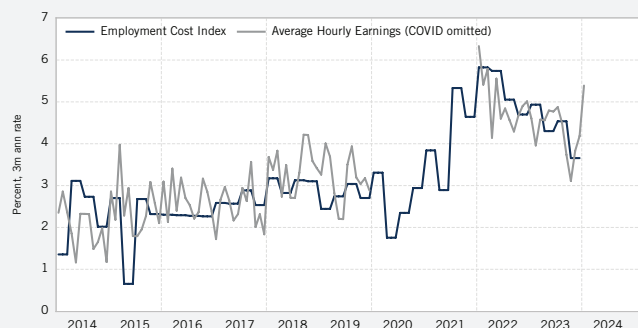


MACRO VIEWS

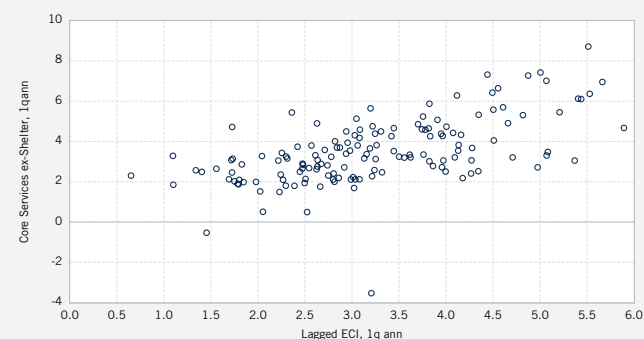
- The end-January release of the Employment Cost Index (ECI) for 4Q was quite good news for the sustainability of the inflation moderation we saw over the second half of 2023. The ECI dropped to an annualized rate of 3.5%—the lowest rate since 2Q of 2021, which extends a move down from a high of 5.5% in 1Q of 2022. Similarly, wage growth subindexes in regional Purchasing Managers' Indexes (PMIs) from across the Federal Reserve (Fed) system have continued to broadly move lower, and forward-looking ones point to further moderation. However, the more timely but also more noisy average hourly earnings (AHE) have shown a pickup into 2024, jumping to over 5% on a 3-month annualized basis.
- We view the lower ECI reading as an important positive for inflation holding onto its move—back to target for core personal consumption expenditures inflation on a 6m annual basis—due to its close relationship to future core services ex rent inflation. The below figure shows ECI growth and the inflation rate for core services ex inflation the following quarter. Lower ECI growth is clearly, though imperfectly (it's economics, after all), related to lower inflation. Indeed, subject to how productivity grows, wage inflation around 3½% is consistent with sustained 2% inflation, or at least not far off.
- Recent productivity growth data has been very friendly to the idea that the current pace of wage growth is sustainable. Faster productivity allows faster wage growth over time and productivity has accelerated to 2.69% in year-over-year terms. Outside of periods immediately following recessions that are distorted by the recoveries in output without as fast labor force growth, this is the most rapid growth for the past 20 years. Indeed, current productivity growth looks like the late-90s and early-00s. The tricky question is if this is still the aftershocks of the pandemic or more sustainable.
- The more concerning economic news is, somewhat counterintuitively, ongoing signs that growth might be reaccelerating. That shows up most prominently in payroll growth, which has jumped to over 300k in both December and January. That's not universal though, as the household survey and ADP have both shown lower employment growth.

Exhibit 1: ECI Continued to Moderate in Q4, But Recently AHEs Have Rebounded



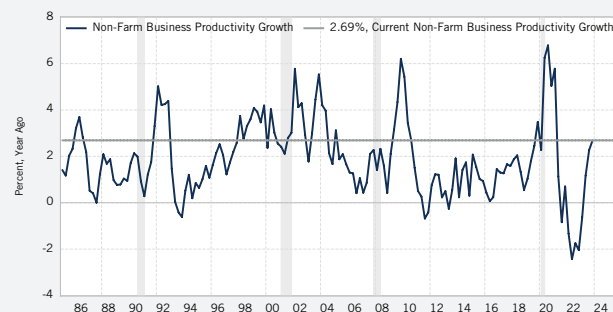
As of January 6, 2024. Source: Bureau of Labor Statistics, Haver Analytics and author's calculations.

Exhibit 2: ECI Drives Core Services Ex Rent



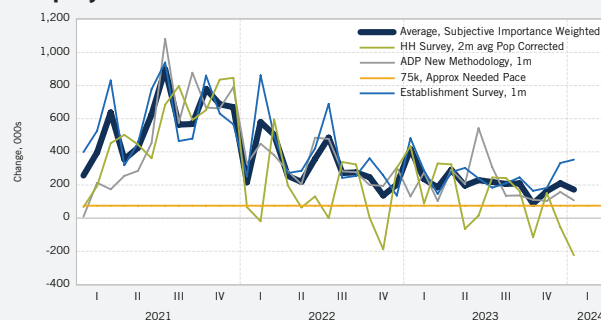
As of January 6, 2024. Source: Bureau of Labor Statistics and author's calculations.

Exhibit 3: Fastest Non-Recession-Driven Productivity Growth in the Last 20 Years



As of January 6, 2024. Source: Bureau of Labor Statistics and Haver Analytics.

Exhibit 4: Marked Divergence Across Measure of Employment Growth



As of January 6, 2024. Source: Bureau of Labor Statistics, ADP, Haver Analytics and author's calculations.

SECTOR UPDATES

Securitized Debt

- The securitized market was very active in January, with strong issuance across all sectors. Despite the record issuance, performance was strong as most investors felt the yields available were more than commensurate for the risks that were being taken. Securitized valuations still appear attractive versus other similarly-rated alternatives.

Securitized Returns and Spreads

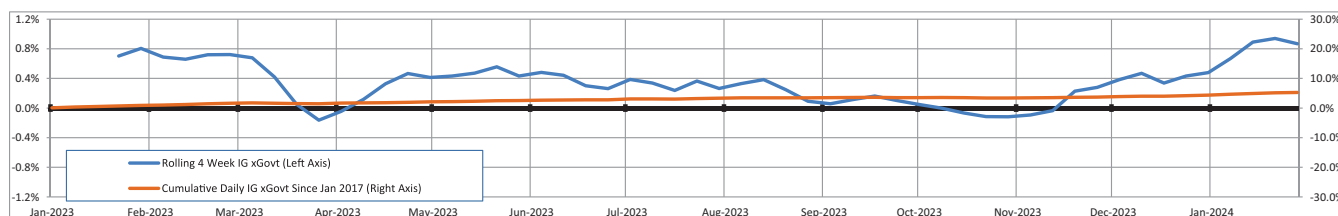
	Total Return – MTD through 2/1/2024	Spreads - 2/1/2024
Asset-Backed Securities	0.66%	62 bps
Commercial Mortgage-Backed Securities	1.15%	114 bps
Mortgage-Backed Securities	0.15%	138 bps

Source: Bloomberg U.S. Aggregate Bond Index. Data as of February 1, 2024.

Investment Grade Corporates

- After a furious rally to end 2023, January's moves were more subdued, with 3 basis points (bps) of spread tightening and slightly negative total returns. Issuance got off to a record start, but demand rose to the challenge – mutual fund flows have been positive for 14 consecutive weeks. Earnings season got underway with healthy results thus far, but not without volatility. Our view on fundamentals and technicals remains quite constructive, but valuations are the constraint, with spreads leaving little room for error.

Rolling Four Week and Cumulative Investment Grade Fund % Flows



Source: EPFR, Newfleet Asset Management. As of January 31, 2024.

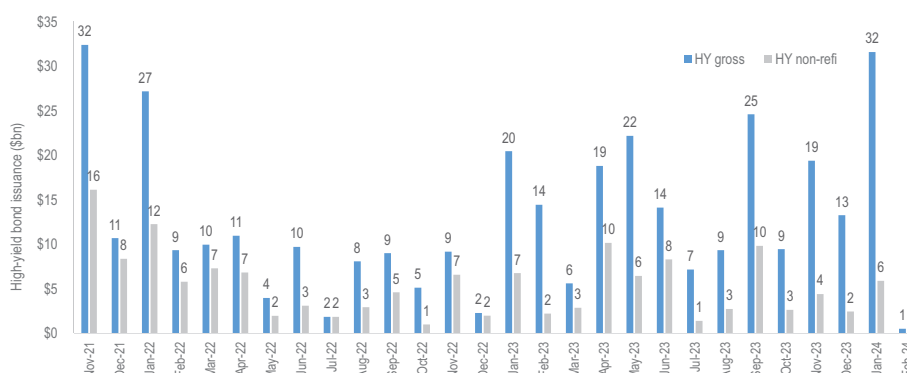
Municipal Bonds

- Lipper reported weekly municipal fund inflows of \$1.5 billion for the period ending January 31st. Open-end mutual funds had inflows of \$659 million, while ETFs saw inflows of \$817 million.
- The Bloomberg Municipal Index posted a total return of -0.55% for January. The high yield municipal index generated a monthly return of 0.82%. Year-to-date, municipals returned 0.04% while high yield munis returned 0.35%.
- January's total new issuance was at \$29 billion, with 30-day visible supply at roughly \$6.966 billion.

High Yield Corporate Bonds

- High yield performance was flat for the month. Better inflation data and solid economic growth increased risk sentiment, causing spreads to reach a low not seen since April 2022 before they widened 21 bps to 344 bps as the market pulled back due to tight valuations. Technicals strengthened in January due to positive market sentiment, with inflows of \$3.9 billion, including \$2.8 billion from ETFs. New issuance more than doubled from December's total, with 42 bonds pricing for \$31.6 billion. For more on high yield bonds, read [Newfleet's High Yield Market Update](#).

The Most Active Week Since September Boosted January HY Issuance to \$32bn, a High Since November 2021

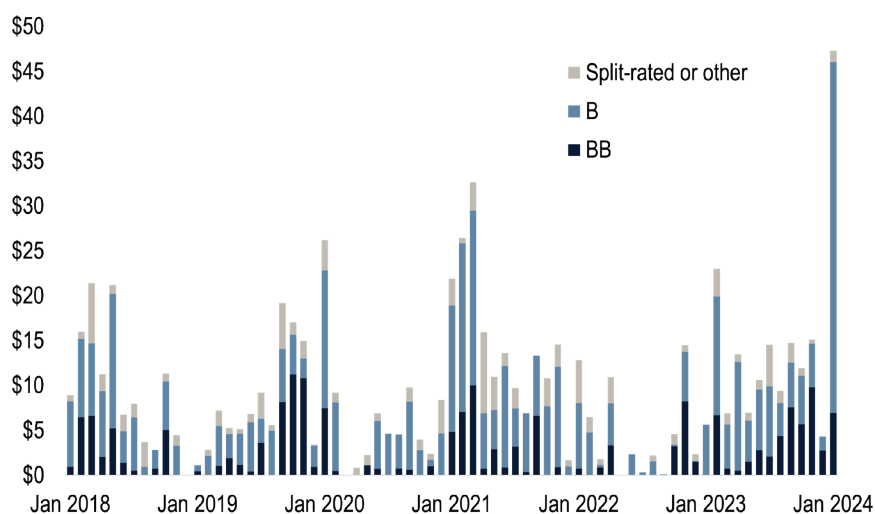


Source: J.P. Morgan. Data as of February 2, 2024.

Bank Loans

- As odds of a soft landing increase, loans posted a 0.68% total return in January, outperforming high yield, corporate investment grade, and Treasuries. Could loans surprise this year? At a 10.1% yield to maturity, loans are retaining their coupon advantage, especially if rates stay higher for longer and the economy moves closer to a soft landing/no recession. Positive loan technicals and a corresponding repricing wave into lower spreads is a notable early story in 2024, with issuance reaching a record monthly gross volume but with little new money issuance to show for it. For more on bank loans, read [Newfleet's Bank Loan Market Update](#).

U.S. Institutional Loan Volume for Refinancing (\$B)

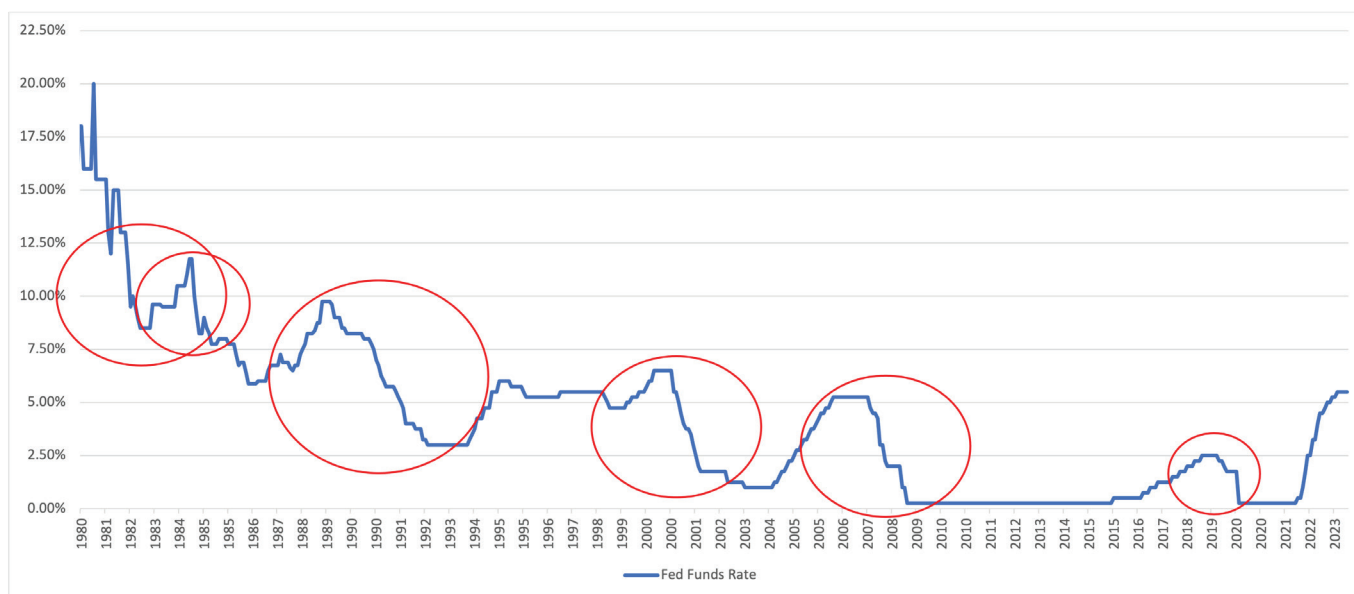


Sources: Pitchbook LCD; Morningstar LSTA U.S. Leveraged Loan Index.
Data through January 31, 2024.

Developed Markets

- The year began with the Fed priced to cut rates by 158 bps through 2024, the European Central Bank (ECB) by 163 bps, and the Bank of England by 149 bps. With expectations this aggressive, it was always likely that the start of the year would see a period of “deliberation, cogitation, and digestion,” and so it proved. Communication from both the Fed and the ECB suggested that rate cuts would come this year but hinted that the scale and pace may be more modest than priced. By month-end, the markets had corrected modestly and priced the Fed to cut rates by 142 bps through 2024, the ECB by 142 bps, and the Bank of England by 116 bps.
- Government bond yields rose modestly in January. 10-year U.S. Treasuries ended the month at 3.91% versus 3.88% for the previous month-end. 10-year German bunds ended the month approximately 12 bps higher at 2.17% and UK gilts ended approximately 26 bps higher at 3.79%.
- This month our chart highlights six periods since the early eighties when the Fed eased rates by more than 200 bps. Five of those were recessions. 84/85 was the exception. In this period, nominal growth fell to 6% and rates were cut by 5%. History never repeats itself, but this does suggest that it might have to rhyme if market expectations of roughly 150 bps of cuts are to be met or exceeded. We will likely need a recession or a decline of nominal growth in the order of 2%. The latter option would be the Fed’s preferred outcome but is very much in the Goldilocks range.

Historical Fed Funds Rate Cuts



Source: Bloomberg LP; Newfleet Asset Management. Data through November 30, 2023.

Emerging Markets Debt

- EM bonds returned -1.18% for the month, with EM investment grade (-1.41%) underperforming EM high yield (-0.86%). Local markets were the worst performing sub-sector and returned -1.52%. By contrast, the corporate market had a +0.59% return for the month. Global credit markets this month remained focused on the Fed, with rate cut expectations continuing to get pushed further into the future.
- After the recent increase in U.S. Treasury yields, we have turned more neutral on U.S. Treasury rates. We see EM debt as fairly valued to underlying country fundamentals.

SECTOR ALLOCATION AND STRATEGY

- Increased allocation to bank loans by 1% in our more credit-focused multi-sector strategies.
- Reduced investment grade corporates by 1% in our more credit-focused multi-sector strategies.
- Continue to have higher allocations to U.S. Treasuries.

	Securitized				Municipals		Credit			Non-U.S.		
	ABS	MBS	RMBS	CMBS	TAX-EX	TAXABLE	IG CORP	HY CORP	BANK LOANS	EM HY	YANKEE GOV	NON USD
Fundamentals	Neutral	Neutral	Neutral	Cautious	Neutral	Neutral	Positive	Neutral	Cautious	Neutral	Neutral	Neutral
Technicals	Neutral	Neutral	Constructive	Positive	Neutral	Constructive	Positive	Positive	Positive	Neutral	Constructive	Neutral
Valuations	Constructive	Neutral	Neutral	Neutral	Cautious	Neutral	Neutral	Cautious	Neutral	Neutral	Neutral	Neutral

Newfleet's assessments of non-government spread sectors as of January 31, 2024. Assessments are determined by analyzing a sector's fundamental data, technical indicators, and relative valuations. Sectors (l to r): **Credit:** Investment Grade (IG) Corporate Bonds, High Yield (HY) Corporate Bonds, Bank Loans. **Securitized Product:** Asset-Backed Securities (ABS), Agency Mortgage-Backed Securities (MBS), Non-Agency Residential MBS (RMBS), Non-Agency Commercial MBS (CMBS). **Non-U.S.:** Emerging Markets HY, Yankee Government, Non-U.S. Dollar. **Municipals:** Tax-Exempt, Taxable.

CREDIT MARKET INDEXES

Index Name	Performance (%)				Analytics				
	MTD	QTD	YTD	12M	OAS (BPS)	YTW %	YTM %	Eff. Duration (YRS)	Spread Dur (YRS)
Bloomberg U.S. Aggregate Index	-0.27	-0.27	-0.27	2.10	40	4.59	4.59	6.25	6.10
Bloomberg Intermediate Aggregate Index	0.00	0.00	0.00	2.76	36	4.53	4.54	4.53	4.39
Bloomberg U.S. Securitized Index	-0.38	-0.38	-0.38	1.41	51	4.82	4.82	5.94	5.49
Bloomberg U.S. Aggregate Corporate Index	-0.17	-0.17	-0.17	4.16	96	5.11	5.11	7.03	7.05
ICE BofA U.S. Corporate & Government 1-5 Year Index	0.39	0.39	0.39	4.06	25	4.43	4.43	2.56	2.60
ICE BofA 3 Mo Libor	0.46	0.46	0.46	5.21	-	5.32	5.32	-	-
Bloomberg U.S. HY 2% Issuer Capped Index	0.00	0.00	0.00	9.28	349	7.85	7.96	3.19	3.24
ICE BofA 1-3Y BB U.S. Cash Pay High Yield Index	0.30	0.30	0.30	7.18	171	6.26	6.36	1.52	1.67
Credit Suisse Leveraged Loan Index	0.78	0.78	0.78	11.08	566	9.17	9.17	-0.06	2.57
JPM EMBI G D	-1.02	-1.02	-1.02	6.58	283	6.84	6.84	6.58	6.54
JPM GBI EM G D	-1.52	-1.52	-1.52	6.42	-	6.40	6.40	5.09	5.01
JPM CEMBI B D	0.59	0.59	0.59	6.49	281	7.02	7.05	4.10	4.26

Data as of January 31, 2024. Source: Bloomberg, Newfleet Asset Management. For illustrative purposes only. See disclosures at end of material for additional information.

Authored by:

Newfleet Asset Management

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.

Bonds may offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a portfolio's fixed income securities will decrease in value if interest rates rise and vice versa.

Bank loans may be unsecured or not fully collateralized, may be subject to restrictions on resale, may be less liquid, and may trade infrequently on the secondary market. Bank loans settle on a delayed basis; thus, sale proceeds may not be available to meet redemptions for a substantial period of time after the sale of the loan.

Emerging markets securities may be more volatile, or more greatly affected by negative conditions, than those of their counterparts in more established foreign markets. Such securities may also be subject to Sanctions Risk.

Bloomberg U.S. Aggregate Bond Index measures the U.S. investment grade fixed rate bond market. **Bloomberg Municipal Bond Index** is a market capitalization-weighted index that measures the long-term tax-exempt bond market. **Bloomberg U.S. Intermediate Aggregate Bond Index** measures securities in the intermediate maturity range of the U.S. investment grade fixed rate bond market. **Bloomberg U.S. Securitized Index** is a subset of the Bloomberg U.S. and includes mortgage-backed-securities (MBS), asset-backed securities (ABS), commercial mortgage-backed securities (CMBS) and covered assets. **Bloomberg U.S. Aggregate Corporate Index** is a broad-based benchmark that tracks the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. The **CBOE Volatility Index**, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options. **ICE BofA 1-5 Year U.S. Corporate & Government Index** tracks the performance of U.S. dollar-denominated investment grade debt publicly issued in the U.S. domestic market, including U.S. Treasury, U.S. agency, foreign government, supranational and corporate securities. **J.P. Morgan GBI-EMGD** tracks total returns for local currency debt instruments issued by emerging markets sovereign and quasisovereign entities to which international investors can gain exposure. **J.P. Morgan CEMBI Index** tracks U.S. dollar-denominated debt issued by emerging market corporations. **J.P. Morgan EMBI Global Index** tracks the total return for the U.S. dollar-denominated emerging markets debt, including Brady bonds, Eurobonds, and loans. The **U.S. 3-Month LIBOR Index** represents the performance of the 3 Month London Interbank Offered Rate (LIBOR) Fixing for U.S. Dollar. The rate is an average derived from the quotations provided by the banks determined by the Intercontinental Exchange (ICE) Benchmark Administration. USD LIBOR is calculated on an ACT/360 basis. 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 **Bloomberg U.S. High-Yield 2% Issuer Capped Bond Index** is a market capitalization-weighted index that measures fixed rate non-investment grade debt securities of U.S. and non-U.S. corporations. No single issuer accounts for more than 2% of market cap. The **ICE BofA US Cash Pay High Yield Index** tracks the performance of U.S. dollar-denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the U.S. domestic market. The **ICE BofA 1-3 Year BB US Cash Pay High Yield Index** is a subset of the ICE BofA US Cash Pay High Yield Index including all securities with a remaining term to final maturity less than 3 years and rated BB1 through BB3, inclusive. The **Bloomberg Pan-European High Yield Index** measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona, and Swiss franc. Inclusion is based on the currency of issue, and not the domicile of the issuer. 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. The commentary is the opinion of Newfleet Asset Management. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

Investing is subject to risk, including the risk of possible loss of principal. Past performance is no guarantee of future results.