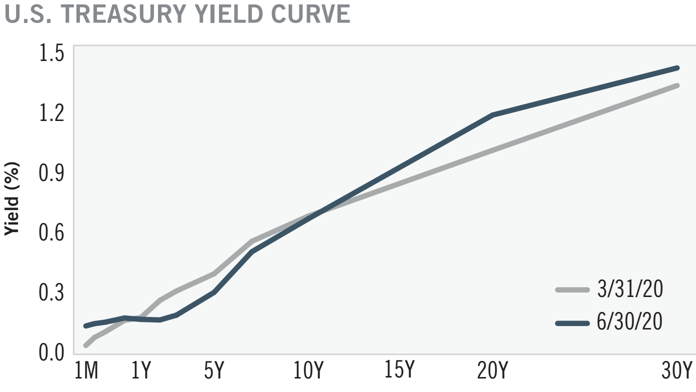
The second quarter of 2020 witnessed an unprecedented global monetary and fiscal policy response to combat the most severe economic disruption since the Global Financial Crisis of 2008-2009 due to the COVID-19 pandemic. Policymakers responded forcefully with a series of maneuvers to restore function to financial markets and shield citizens from serious hardship as a result of the abrupt stop in economic activity. Programs were designed to support the newly unemployed, businesses of all sizes, states and municipalities, and several areas of the securitization markets. The ultimate human and economic toll is not yet known. However, our expectation remains that policymakers will fine-tune their response as warranted.

Stay-at-home orders and mandated business closings proved unambiguously damaging for local, regional, and global economic growth during the quarter; near-term corporate earnings results are likely to be negative. We are optimistic, however, that the trough in economic activity and corporate earnings will occur in the second quarter with a rebound in the second half of the year and into 2021. Progress has been made in restarting parts of the economy around the country and activity is rebounding, though a second disruptive shutdown remains a concern. Financial markets have reacted positively to the monetary and fiscal policy response, rebound in economic activity, and attractive valuations by moving aggressively higher during the period. We believe elevated cash levels and a high degree of personal savings will be a tailwind to growth in the coming quarters as everyone adjusts to a near-term new normal.

The Federal Open Market Committee left its target federal funds rate unchanged at 0.25%, the rate that was set in late March in response to the pandemic. The Committee stated it expected to keep rates near zero until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.

U.S. TREASURY YIELD CURVE

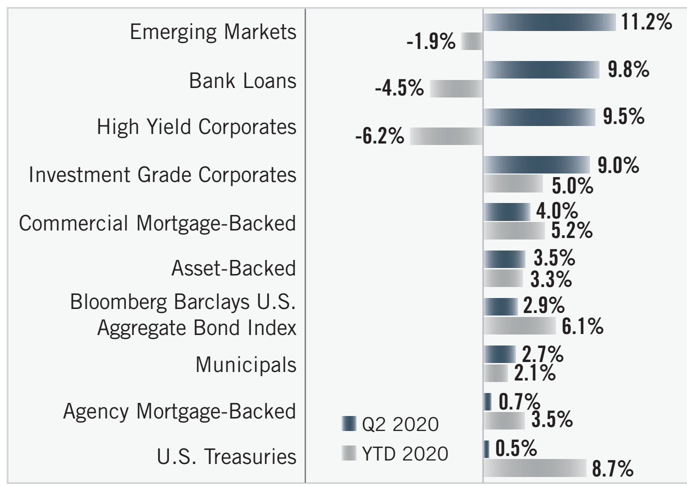


Source: Bloomberg L.P.

FIXED INCOME SECTOR PERFORMANCE

Spread sectors outperformed U.S. Treasuries during the quarter led by higher beta sectors such as high yield corporates, bank loans, and emerging market (EM) debt. Within most sectors (with the exception of high yield), lower quality and longer duration outperformed. Corporate credit outperformed securitized sectors such as commercial mortgage-backed securities (CMBS), non-agency residential mortgage-backed securities (RMBS), and asset-backed securities (ABS).

FIXED INCOME SECTOR PERFORMANCE



Performance as of June 30, 2020.
Sources: J.P. Morgan: Emerging Markets (EMBI Global), High Yield Corporates, High Yield Bank Loans; Bloomberg Barclays Municipal Bond Index: Municipals; Bloomberg Barclays U.S. Aggregate Bond Index: All other sectors.
Past performance is no guarantee of future results.

We continue to see value in spread sectors. While there is no doubt that COVID-19 will prove disruptive to economies in the near term, we are confident that the crisis will be resolved with time. Our multi-sector approach to fixed income investing enables us to scan the bond market for the most attractive investment opportunities wherever they may be and is ideally suited for the current environment.

The following sections reflect the views of the individual sector specialists.

INVESTMENT GRADE CORPORATES

The Federal Reserve's (Fed) March 23 announcement of primary and secondary corporate lending facilities was the clear turning point for the investment grade market. Spreads peaked at 373 basis points on that day and spent most of the second quarter tightening. Spreads have now retraced approximately 80% of the move wider and currently sit at 150 bps, just above the post-financial crisis average.

The Fed's backstop opened the floodgates for new issuance. Second quarter issuance was the highest on record with gross supply of $834 billion. Prior to 2020, the record holder was Q1 2017 with $444 billion. If issuance were zero for the final six months of the year, 2020 would still be the third largest year on record. Demand was strong throughout the quarter with mutual fund inflows erasing record outflows in the first quarter. Net flows now sit just north of zero year to date. The Fed's impact on the market was primarily via the announcement effect, but it did begin buying ETFs on May 12 and individual bonds on June 17. Purchases have been modest in the context of its $250 billion secondary buying authorization, but accelerated into quarter end.

Second quarter earnings will be released in the upcoming weeks and the market is anticipating incredible weakness with consensus forecasts calling for a 45% year-over-year earnings decline. The trajectory of the recovery is continuously evolving so we are less focused on the earnings themselves and more on liquidity positions, cash burn rates, and cost flexibility. Companies are unable to control the pace of the economic recovery so we are focused on items within a management's control.

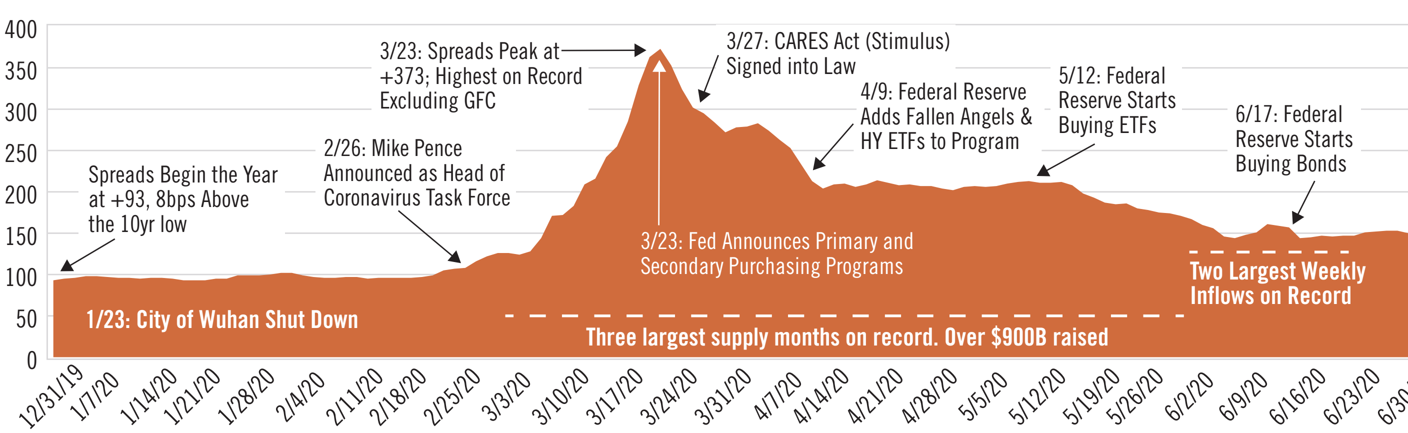
We believe the fundamental outlook is permanently altered by the Fed's intervention. By establishing itself as a lender of last resort and stepping in to prevent a disorderly downgrade cycle, we believe some tail risk has been eliminated from the investment grade market. Going forward, that should translate into less fundamental compensation required, i.e., tighter spreads. We are not shying away from risk within the investment grade market. Credits carrying investment grade ratings typically have the flexibility to cut discretionary spending to preserve cash flow in a prolonged downturn, we have seen an abundance of liquidity-bolstering transactions, and the Fed's $500 billion backstop lending facility remains 100% available.

HIGH YIELD CORPORATES

In the second quarter, the high yield corporate sector posted its best return since 2009 with a total return over 10% (Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index). The quarter was characterized by a strong recovery triggered by massive fiscal stimulus and monetary easing. The Fed's program of directly buying corporate bonds and also buying high yield ETFs triggered a massive rally in prices. Fund flows quickly switched from large outflows to huge inflows – 12 straight weeks of record-breaking inflows during the month of April and May – as investors looked to buy bonds at historically cheap valuations and to front-run the Fed. After being closed for most of March, issuers took advantage of the reopening of the high yield new issue market to raise funds to build liquidity or push off maturities. The mix of issuance was different in form than is typical – more secured issuance with shorter average maturities. Businesses facing enormous challenges from economic shutdowns, such as cruise lines and airlines, were able to issue albeit at expensive rates. The new issuance culminated in June breaking the record for most issuance in a month. Rating downgrades accelerated sharply during the quarter with several large investment grade names being downgraded to high yield. 2020's fallen angels now make up over 10% of the high yield index market value. The default rate also rose throughout the quarter and is now at a 10-year high with energy unsurprisingly driving a significant portion of that.

The outlook for high yield is a balancing act between valuations still at historically attractive levels and mixed coronavirus data. The last week of the second quarter showed investors shifting back toward a focus on the virus as flows turned negative and more COVID-exposed names traded lower. While investors initially expected the virus to impact the first or second quarters, it is becoming clear that some impacts will continue for the rest of 2020 and with possible

YTD SPREAD PERFORMANCE – INVESTMENT GRADE



Source: Bloomberg Barclays. Based on Bloomberg Barclays U.S. Investment Grade Corporate Index.

continued

extensions into 2021. The unknown length of the impact makes it difficult to determine if the liquidity boosting measures done by COVID-exposed issuers are adequate. Another concern is whether the additional leverage has longer-term solvency issues even if earnings return to pre-COVID levels. Aggregate fundamentals in terms of credit metrics will likely be at all-time weak levels following second quarter earnings. Overall, we expect further spread tightening throughout the year given the likelihood of continued monetary stimulus, additional fiscal stimulus, and attractive starting valuations. Risks remain around the evolution of economic closures related to the virus, the amount of temporary impacts that become permanent, and the longer-term impacts on the economy from this period of volatility and job losses. Our focus continues to be on refining our views on the virus and how it will impact our portfolio holdings. Additional drivers for the second half of the year are the upcoming U.S. presidential election and the evolution of China-U.S. trade relations.

BANK LOANS

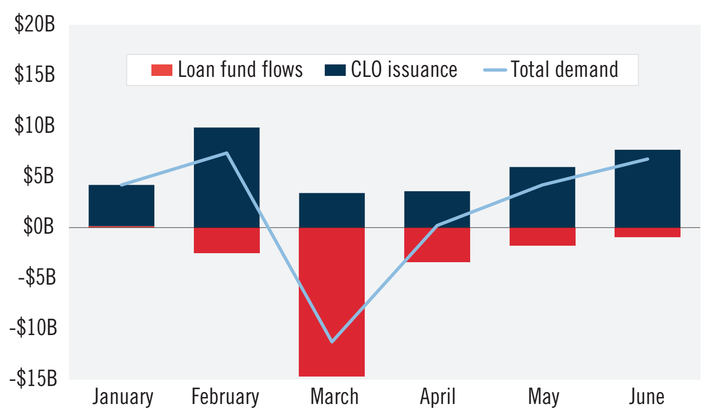
After a turbulent end to the first quarter and historic losses in March, the bank loan market rebounded soundly in the second quarter. Loans returned 9.7% for the quarter (Credit Suisse Leveraged Loan Index), retracing roughly 75% of the previous period's losses (-13.2%). The Federal Reserve's massive stimulus plan to combat the economic fallout from COVID-19, and supportive actions by central banks worldwide, buoyed investors' confidence in a sustained recovery, especially as economies began to reopen. In late June, a resurgence of virus cases in certain parts of the U.S. threatened to slow progress on the reopenings and reintroduced some weakness into the markets.

In a reversal from the first quarter, and consistent with a risk-on backdrop, lower quality did better than higher quality over the second quarter with Bs and CCCs (both at +11.5%) outperforming BBs (+6.1%). Higher quality had started off the rally in late March as opportunistic buyers stepped in to take advantage of historically cheap valuations. As continued policy support and an easing of virus-related restrictions boosted sentiment, riskier cohorts assumed the lead as investors focused on lower dollar price loans for total return opportunities (and CLO managers added discounted credits to manage CLO structure tests). As a result of this dynamic, year-to date returns by quality are similar for Bs (-4.1%) and BBs (-4.4%), with CCCs (-12.7%) still trailing.

All industries posted positive returns for the second quarter. Energy (+26.4%), transportation/shipping (+15.0%), and metals/minerals (+13.8%), the hardest hit in the first quarter, outperformed in the second quarter along with food & drug (+14.2%) and manufacturing (+12.5%). The more defensive industries, such as cable/wireless video (+3.7%) and wireless communications (+5.1%), underperformed.

Aside from a few weeks of modest inflows, retail redemptions persisted throughout the quarter (roughly $5 billion) though at a much more moderate pace than in March. Demand from retail investors, now less than 5% of the market, is likely to remain soft given the low interest rate environment. Demand from CLOs showed steady improvement over the quarter, though year-to-date issuance is still considerably behind the comparable six-month period in 2019. Many of the completed deals were already in the pipeline, i.e., in pre-COVID warehouses. As the CLO market continues to "heal", a new profile of CLOs has emerged (e.g., smaller, shorter-dated) with more creativity in deal structures.

LEVERAGED LOAN MEASURABLE DEMAND



Sources: LCD, an offering of S&P Global Market Intelligence; Lipper

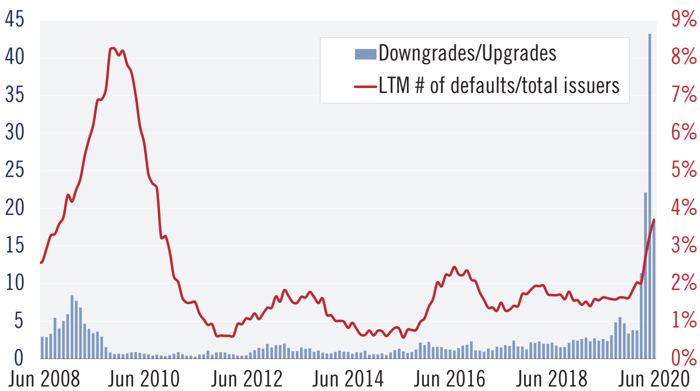
Despite a surge in June, supply remains weak with gross new issuance of just $46 billion in the second quarter. Due to substantial refinancings/repricings in January and February, gross issuance ($246 billion) is up 56% year over year, while net issuance ($77 billion) is down 29%. Market share gains from high yield and the practical difficulties of doing LBOs and M&A in a post-COVID world has dampened supply and has resulted in a thin forward calendar. Limited supply, however, has aided the technical. In combination with rising CLO issuance, more muted retail outflows, and June quarterly amortization, we expect technicals to be in good shape over the next few months.

Second quarter earnings will be the next important economic milestone in the COVID timeline as the results should provide better visibility on the magnitude of the damage to credit fundamentals and the future path of downgrades and defaults.

continued

After surging in April, downgrade activity decreased in May and June but, to this point in time, roughly 35% of the loan market (by par amount outstanding) has been downgraded. The trailing 12-month default rate hit a five-year high of 3.2% in June with expectations that it will go higher as the pandemic continues to take its toll. In the near term, we expect markets to remain relatively flat and move with the headlines. We may be in the calm before the storm with second quarter earnings a potential catalyst for another wave of downgrades and defaults.

DOWNGRADES/UPGRADES RATIO AND LTM LEV LOAN DEFAULT RATE



Sources: LCD, an offering of S&P Global Market Intelligence

The average price of the market closed the second quarter at 89.9, well above the March 23 low of 76.2, but still below the 96.7 price at the start of 2020; the quarter started at 82.8. Prices improved across the risk spectrum with BBs ending the quarter at 95 followed by Bs at 92.4; CCCs closed at 76.4, the highest reading since February. Roughly 49% of performing loans were bid 95 or higher, up from 8% in March. The lower end has also seen improvement with 8% of the market now less than 80, down from 57% in March. Loan spread to a three-year life closed the quarter at Libor+696, a steady improvement from the March wide of L+1076. Spreads remain wide of the lifetime historical average of low/mid Libor+500s, thus marking a reasonably attractive entry point in the space for patient long-term investors.

The containment of the virus, and ultimately the development of a vaccine, are the determining factors in the prospects for bank loans as well as other risk assets. Ahead of the upcoming earnings season, we continue to review our COVID-related exposures in terms of both direct and secondary impacts. Our focus is on companies with liquidity, runway, access to capital markets, and generally a good risk/reward balance of having some protection on the downside with good upside potential. The swift rally in prices during the second quarter implies that much of the low-hanging fruit has been picked, renewing the importance of credit selection.

EMERGING MARKET DEBT

Emerging market (EM) sovereign debt posted a return of 11.2% (J.P. Morgan EMBI Global Index or EMBIG) in the second quarter of 2020, gaining back nearly all that was lost in the prior quarter (-11.7% return), the third worst quarter on record. In contrast, the most recent quarter was the sixth best in the history of the index, which dates back to 1993, and the best quarterly return since 2002.

Massive government fiscal stimulus programs and easing monetary policy from the U.S. and around the globe, including increased support from multilateral agencies like the IMF and the World Bank, supported the rebound in EM asset valuations. In addition, major oil producers agreed on substantial production cuts leading to a rebound in oil prices and, in May and June, economies around the world gradually emerged from lockdowns put in place to slow the pace of the spread of COVID-19.

Some highlights for the second quarter:

> EM high yield materially outperformed EM investment grade with a 15.2% return for the former compared to a 9.1% return for the latter. The lowest-rated CCC and B sub-indices returned 29.5% and 16.2%, respectively.

> Some of the top country returns included Angola (+119%), Gabon (+46%), and Ecuador (+40%), whose bonds bounced back from severely distressed levels but still remain in deep loss positions on a year-to-date basis. The recovery in oil prices from a bottom of under $20/bbl on Brent crude at 4/21/20 to above $41/bbl at quarter end helped these individual names and all the oil dependent countries (about 40% of the index).

> Some other top performers included Nigeria (+37%), Argentina (+30%), Sri Lanka (+21%), and Bahrain (+20%).

> Lebanon (-5%), Venezuela (-40%), Suriname (-32%), and Belize (-22%) were the only countries with negative returns in the period. Brazil (+2.5%), which has been hit hard by COVID-19 and had a poor government response to the disease, was a notable underperformer.

EM local market debt underperformed sovereign debt in the period with a return of 9.8% (JPM GBI-EM Global Diversified). Indonesia, Colombia, and Russia had strong total returns of 21%, 18%, and 17%, respectively, in the quarter. Brazil, China, and Dominican Republic posted the only negative total returns, albeit slight, for the period.

The main EM corporate index (JPM CEMBI Broad Diversified) performed roughly in line with the EM sovereign index, posting an 11.2% return. The high yield corporate return was 15.1% and, similar to the sovereign universe, the lowest-rated segment turned in the best returns with CCCs up 21.1% and single B returns up 17.2%. The EM investment grade return for the period was 8.5%.

continued

We expect economic activity globally to continue to increase from the steep drop it took in April and May. We have seen evidence of improving mobility trends in recent weeks and a recovery in sentiment, as measured by May and June PMI data that are beginning to translate into an upturn in hard economic data like retail sales and industrial production. We think the path of the recovery will follow the disease, and the recovery in growth will look more U-shaped as certain sectors like tourism and travel will be slow to recover until there is a vaccine.

EM hard currency spread valuations in the low to mid 400 bps range have rallied considerably from the wide point of 662 bps on 3/23/20, but retain some attractiveness relative to the long-term five- and ten-year average index spreads of 375 bps and 355 bps, respectively. While we were buyers of EM from late March until early June, we have since shifted our tactical stance on EM debt to "hold" from "buy" since early June reflecting the move in valuations combined with our concern over a resurgence in the virus and its potentially negative impact on the burgeoning economic recovery.

SECURITIZED PRODUCT

We opened our securitized first quarter 2020 review with the following statement: "One quarter does not make a year…". However, we would never have imagined the retracement in pricing that we witnessed over the second quarter. As a quick reminder, COVID-19 impacted all markets dramatically at the end of March. The securitized product new issue machine came to a halt as prices dropped dramatically with the fear of rising unemployment and the unknown future performance of consumer- and commercial-backed securitized product. The government stimulus programs for both consumer and small business have thus far muted the expected rise in delinquencies. The federal stimulus bridge enabled the majority of borrowers to stay current on their obligations. In addition to government help, the private market has been actively addressing stressed borrowers' needs by executing deferrals and modifications on outstanding loans.

As a result, the securitized market rallied dramatically in price during the second quarter. Within the securitized portion of the Bloomberg Barclays U.S. Aggregate Bond Index (Aggregate Index), asset-backed securities (ABS) delivered 3.54%, commercial mortgage-backed securities (CMBS) returned 3.95%, and agency mortgage-backed securities (MBS) returned 0.67% for the quarter.

Compare the aforementioned to the first quarter returns of -0.21% and 1.19%, respectively, for the ABS and CMBS components of the Aggregate Index.

The new issue machine ground to a halt at the end of March as demand waned for securitized product, which was captured via lower prices in the secondary market. Fast forward to the end of the second quarter, the new issue markets began opening up in late April as the flexibility of the securitized markets rose to life. Deal structures were enhanced and adapted to the early phases of COVID-19 uncertainty. Demand for both primary and secondary securitized product has been voracious. As a result, spread product has rallied and pricing has improved dramatically for all securitized products.

During the quarter, we took advantage of the price dislocations by adding consumer-backed product such as credit cards, subprime auto, whole business, and unsecured consumer loans to the portfolio at spread levels that we have not seen since the 2008-09 housing crisis. In addition, we added distressed rental car paper, single family rental, aircraft equipment paper, and select non-agency residential mortgage-backed securities (RMBS). All of the above have rallied in price since purchased and therefore have been accretive to our portfolios.

Although prices have rallied and yields are dramatically lower from the first quarter of 2020, securitized product still looks very compelling on a spread basis due to the fact that U.S. Treasuries are at or near record-low yield levels. We are not out of the woods yet as some junior tranches of securitized product are trading at levels last seen during the previous crisis. As an example, CMBS subordinate bonds have struggled during this price rally given the negative backdrop in commercial real estate. Retail (especially malls) and hotels have been hit hard during this crisis. Also, the work-from-home experiment may curb the amount of office space needed going forward, which puts pressure on future releasing rates. During the third quarter, we will continue to search the landscape of securitized product to add value to our portfolio. In addition, although distressed sellers of securitized product have disappeared, there may be a few opportunities in the secondary market that we can take advantage of during the third quarter.

TAX-EXEMPT MUNICIPAL BONDS

The municipal bond market recovered well during the second quarter (+2.72%) following a volatile end to the first quarter. While the municipal market has begun to benefit from investors' renewed interest in taking added risk, it is still the highest quality bonds that have proven to be the best performers year to date. We continue to believe that higher quality municipal bonds offer reasonably good relative value.

continued

While investors are now being compensated more in credit risk spreads for owning the lowest-rated bonds, there remains tremendous uncertainty surrounding the credit metrics for this segment of the market due to the coronavirus and its future impact on the creditworthiness of many lower-rated municipal issuers.

As the second quarter began, "social distancing" became mandated and investors grew concerned about owning anything but the very highest of quality bonds. With fund complexes raising extraordinary amounts of cash to meet investor liquidity needs, the number of bonds offered surged and far exceeded demand. Fortunately, with municipal bond valuations exceptionally cheaper, the non-traditional buyer quickly appeared and provided support for the municipal bond market. Throughout the most volatile days early in the crisis, the municipal bond market never ceased to function with funds, individuals, and institutions all seemingly able to raise necessary cash.

Following the federal government's announcements of a variety of fiscal and monetary stimulus programs, the municipal bond market quickly eased its panic and the market's operations began to normalize. Demand for tax-exempt debt reemerged, with improved interest in lower-rated securities and longer-maturity bonds, despite ongoing uncertainties surrounding the municipal bond market due to the virus.

Despite the challenging environment the market experienced in March and April from the pandemic, gross supply of municipal bonds still ended the first half of 2020 almost 25% higher compared to the first half of 2019. Although higher, overall municipal bond supply is being driven by taxable issuance, which is up approximately 300% compared to the comparable period last year. This higher level of taxable municipal bond supply is actually benefiting the technical market conditions for tax-exempt bonds as it is helping to keep tax-exempt supply very manageable, while creating more pre-refunded bonds. Municipalities are able to generate beneficial cost savings by advance refunding older and higher-cost tax-exempt bonds with new taxable municipal bonds. We expect this trend to continue in to the second half of 2020, especially if interest rates stay low and taxable credit risk spreads remain narrow.

Investors of all types are wrestling with the negative credit impacts and risks associated with the virus on municipal bond issuers. After a prolonged environment whereby all credits seemed to improve in unison, the market has uniformly renewed its focus on credit. Municipalities had made solid fiscal progress during the long economic expansion, building rainy day funds and improving pension funding ratios, and appeared better positioned for an economic slowdown. Unfortunately, no municipality seems to have planned for the sudden and abrupt economic shutdown that took place as a result of the virus. Consequently, we are expecting challenging times ahead for municipal credit as a result of delays in tax collections and certainly loss in revenue as the economy came to a halt. While we expect the inevitable downgrades from the major rating agencies to expand and accelerate in the second half of the year, with some issuers experiencing possible disruptions in payments, we do not believe that most municipalities, especially the higher quality bonds (AAA-AA rated) that we primarily invest in, will experience payment interruptions or default. The federal government has injected large amounts of cash into state and local municipalities as part of the CARES stimulus package, and is discussing even more aid to those state and local governments most impacted from the virus. While it is uncertain how long the economy will remain in some version of lockdown or how long the virus will remain active in the world, we do anticipate revenues to improve as the economy opens across the country.

For more detail on tax-exempt municipal bonds in the second quarter, including our outlook, see Newfleet's 2Q20 Municipal Bond Market Review.

continued

Authored by:

The Newfleet Multi-Sector Team

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.

Bloomberg Barclays U.S. Aggregate Bond Index measures the U.S. investment grade fixed rate bond market. Bloomberg Barclays Municipal Bond Index is a market capitalization-weighted index that measures the long-term tax-exempt bond market. J.P. Morgan GBI-EMGD tracks total returns for local currency debt instruments issued by emerging markets sovereign and quasi-sovereign 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 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 Barclays 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 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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