

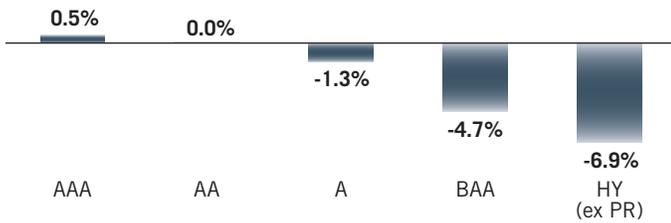
Municipal Bond Market

PERFORMANCE

The municipal bond market performed well during the first two months of the year, with the Bloomberg Barclays Municipal Bond Index returning 3.11% through the end of February. The municipal market, however, has not been immune to the turmoil that the COVID-19 virus has created. March was a very volatile month, with large swings in municipal pricing. Despite these undercurrents, the market was able to outperform other segments of the fixed income market with the Index return down only 0.63% for the quarter. In a reversal of trend, lower quality had the worst performance in the current environment after having the best performance for more than five years.

PERFORMANCE BY QUALITY

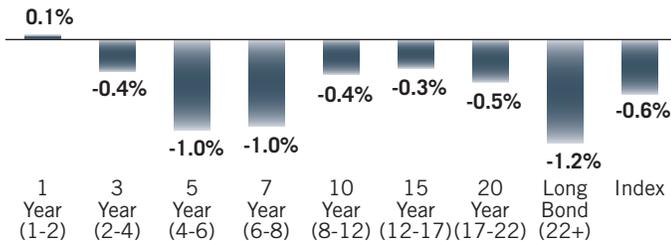
Bloomberg Barclays Municipal Bond Index
Year-to-Date Total Return Through March 31, 2020



Source: Bloomberg Barclays. Past performance is no guarantee of future results.

PERFORMANCE BY MATURITY

Bloomberg Barclays Municipal Bond Index
Year-to-Date Total Return Through March 31, 2020



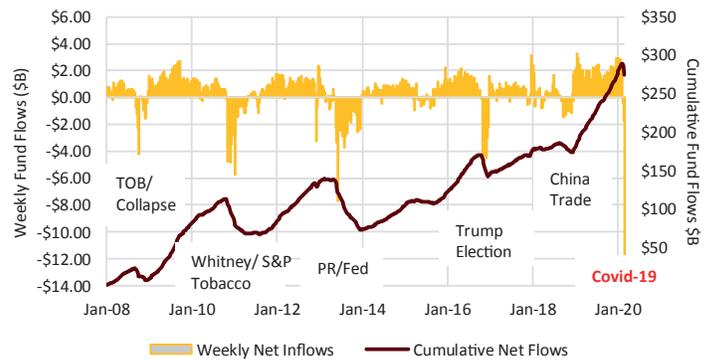
Source: Bloomberg Barclays. Past performance is no guarantee of future results.

TECHNICALS

It was simply amazing how a market could go from the best technical condition to possibly the worst in basically two weeks. For 62 consecutive weeks, tax-exempt bond funds experienced record inflows, only to see the market then experience the highest outflows ever recorded during the final weeks of the quarter. As the end of the period approached, “social distancing” became mandated, and investors grew concerned about owning anything but the very

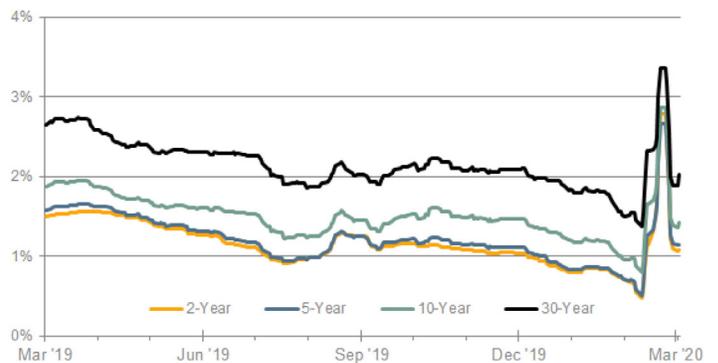
highest of quality bonds. The market saw back-to-back weeks of outflows. With fund complexes raising cash to meet investor liquidity needs, the number of bonds offered surged and far exceeded demand. Fortunately, with municipal bond valuations exceptionally cheaper, the non-traditional buyer quickly swooped in and provided support for the municipal bond market as the quarter came to a close. The speed at which these changes occurred has made for a challenging environment for the municipal bond market.

MUNICIPAL BOND FUND SUPPORT HAS BEEN RARELY INTERRUPTED 2008-2020



Source: MMA

HISTORICAL MUNI SPOT YIELDS



As of March 31, 2020. Sources: CreditSights, Bloomberg (BVAL AAA 5% callable curve).

FUNDAMENTALS

Municipalities had made solid fiscal progress during the long economic expansion, building rainy day funds and improving pension funding ratios, and appeared better positioned should an economic slowdown occur. Unfortunately, no municipality could ever have planned for the sudden and abrupt economic shutdown that took place as a result of

COVID-19. 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 has come to a halt. While we think there may be some disruptions in payments, we do not believe that municipalities, especially the higher quality bonds that we invest in, will default. The federal government is expected to inject cash into the state and local municipalities as part of the new stimulus package. While it is uncertain how long the economy will be in this lockdown, we do anticipate revenues to begin to flow once the economy gets up and running again.

OUTLOOK

As we look ahead, we remain concerned about the impact of the virus on municipal revenue collections, especially should the current “stay at home” mandate continue for a prolonged period of time. As the federal government continues to step in to avert a severe recession, tax-exempt income may become more valuable as the funding for any federal stimulus plan will likely result in higher tax rates once the pandemic abates. Again, higher-rated municipal issuers that provide essential services in the U.S. should fare better than lower-rated, less-essential issuers. Negative headline news surrounding municipal credit will likely surface, but it is times like these that our higher quality investment strategy with more granular positions, distributed across multiple sectors of the market, should provide better relative performance and a strong foundation to one’s investment portfolio.

Authored by:

The Newfleet Municipal Bond 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.

The Bloomberg Barclays Municipal Bond Index is a market capitalization-weighted index that measures the long-term tax-exempt bond market. The index is calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

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