

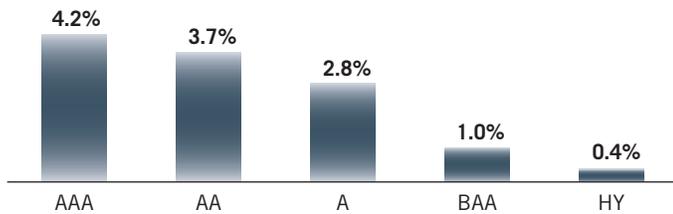
Municipal Bond Market

PERFORMANCE

Despite all the headline news surrounding the COVID-19 pandemic, the election, and natural disasters, the municipal bond market provided solid performance for the third quarter. The Bloomberg Barclays Municipal Bond Index returned 1.23% for the three months ending September 30, bringing the year-to-date return to 3.33%. This has been a tremendous turnaround from mid-March when the municipal bond market was down over 7.60%. Despite growing credit concerns, municipal yields have largely returned to pre-pandemic levels and lower-rated bonds outperformed higher quality bonds for the quarter. That said, the highest quality bonds have proven to be the best performers year to date, and we continue to believe that higher quality municipal bonds offer reasonably good relative value given the tremendous uncertainty regarding the market due to the coronavirus and its future impact on the creditworthiness of many lower-rated municipal issuers.

PERFORMANCE BY QUALITY

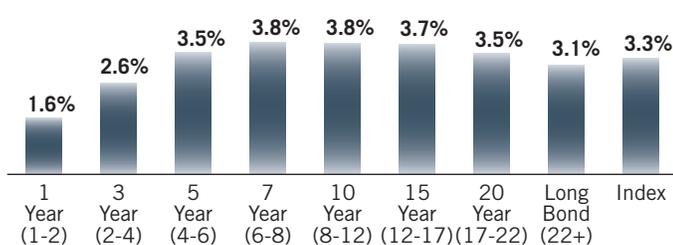
Bloomberg Barclays Municipal Bond Index
Year-to-Date Total Return Through September 30, 2020



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 September 30, 2020



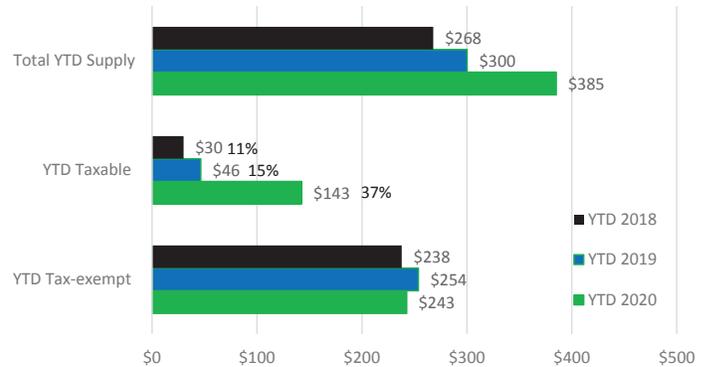
Source: Bloomberg Barclays. Past performance is no guarantee of future results.

TECHNICALS

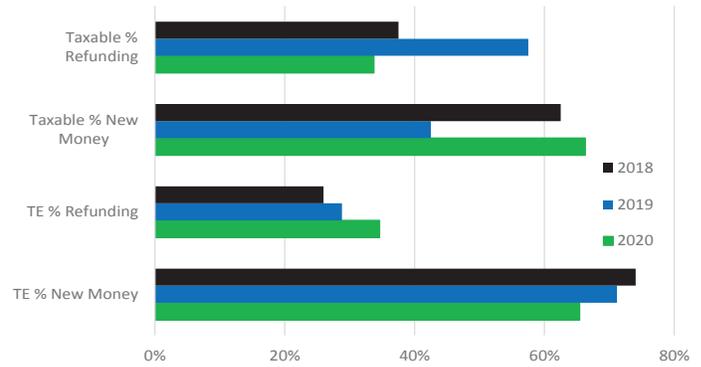
Throughout the quarter, the municipal bond market benefited from a strong resurgence in demand as municipal bond mutual funds saw 19 consecutive weeks of inflows totaling more than \$42 billion. Despite issuance of municipal bonds seeming to show a dramatic increase over previous years' levels, it has really been the issuance of taxable municipal debt that has caused those figures to grow. While municipalities continue to advance refund their higher cost debt with taxable municipal debt, increasing overall issuance, the market has seen fairly

flat year-over-year changes in the amount of tax-exempt debt. As a result, the market technicals remained solid over the quarter as demand continued to outpace supply.

YTD OCTOBER 9 MUNICIPAL ISSUANCE (\$BNS)

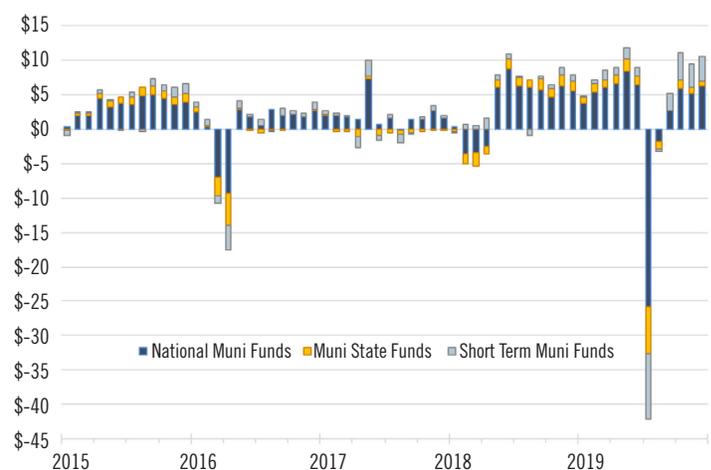


YTD % REFUNDING VS NEW MONEY



Source: Bloomberg, J.P. Morgan

MONTHLY MUNICIPAL BOND MUTUAL FUND NET SALES BY FUND TYPE (\$BN)



As of 8/31/20. Updated 10/1/20. Sources: CreditSights, ICI, Bloomberg. National Municipal Bond Mutual Funds invest in bonds with an average maturity or duration of more than five years or with no specific stated maturity. Short Term Municipal Bond Mutual Funds invest in bonds with an average maturity or duration of one to five years.

FUNDAMENTALS

As the global pandemic rages on, the negative economic effects will continue to challenge municipalities. Despite the rating agencies recognizing that most states came into this pandemic far stronger financially than in previous economic downturns, they downgraded more bonds in the second quarter than at any time over the past couple of years. While we do believe that municipalities, in general, will continue to face challenging times as they are forced to manage with reduced revenue collections, and that downgrades may persist into next year, we also believe that most will recover without actually defaulting, as we've seen during past economic slumps. We also believe that the Federal CARES Act, while not widely utilized to date, should provide relief if needed. While it is uncertain how long the economy will remain sluggish or how long the virus will remain active in the world, we do anticipate revenues to grow as the economy improves across the country.

OUTLOOK

As we move into the final three months of 2020, we continue to favor our investment strategy of maintaining granular positions of higher quality municipal bonds, diversified across the many sectors of the municipal market. As the economy recovers from the challenges incurred by the pandemic, we do expect revenue collections to grow, with some areas of the country and sectors

of the market improving quicker than others. While we believe mass transit and credits that are dependent on tourism and business travel will likely be slower to recover, higher-rated municipal issuers that provide essential services in the U.S. should fare better. Climate change is another area of the municipal market that is garnering increasing attention. As wildfires continue to create devastation in the western states, heightened hurricane activity hammers the southern part of the country, and drought conditions persist across much of the northeast, we are reminded of other challenges facing municipal credit. In addition, we are watching the upcoming federal elections. Although market volatility may ensue in the coming weeks due to headline news, there is still much uncertainty as to future tax implications and ultimately a change in demand for tax-exempt income. That said, given the amount of government spending to help stimulate the economy during the pandemic, it is difficult to imagine an environment of lower taxes that could potentially lessen the demand for municipal bonds. While the municipal market has held onto its long coveted reputation of a safe haven investment, credit and market analysis have grown increasingly important. Historically in times like this, our higher quality investment strategy, distributed across multiple sectors of the market, has provided better relative performance.

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.

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.

Past performance is no guarantee of future results.

All investments carry a certain degree of risk, including possible loss of principal.

Mutual Funds, ETFs, and Virtus Global Funds are distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.

2213 10-20 © 2020 Virtus Investment Partners, Inc.



virtus.com • 1-800-243-4361