

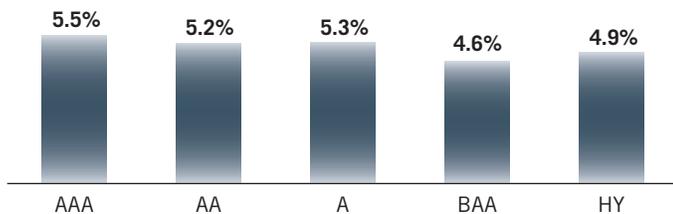
Municipal Bond Market

PERFORMANCE

With the country still confronting the COVID-19 pandemic and the many negative implications on a human and financial level, the municipal bond market performed well during the fourth quarter as the risk-on environment continued. During the quarter, the market saw sustained demand for longer-dated and lower-rated investments as fiscal and monetary measures out of Washington, promising prospects of a vaccine, and strong technicals supported the market. While the performance of the municipal bond market was severely impacted at the onset of the pandemic (down over 7.60% through March), the Bloomberg Barclays Municipal Bond Index posted a positive 5.21% return for the year, with a fourth quarter return of 1.82%. With the election now decided, we believe that the municipal market will be focused on further fiscal stimulus to flow to states and local municipalities as well as on the potential for major tax and regulatory changes.

PERFORMANCE BY QUALITY

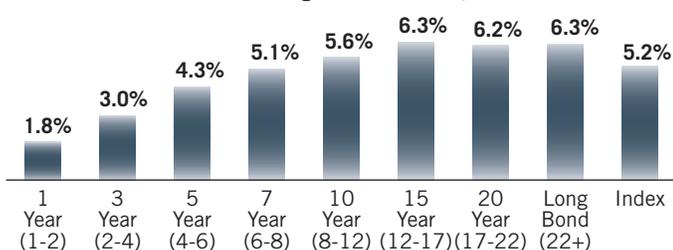
Bloomberg Barclays Municipal Bond Index
Year-to-Date Total Return Through December 31, 2020



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 December 31, 2020



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

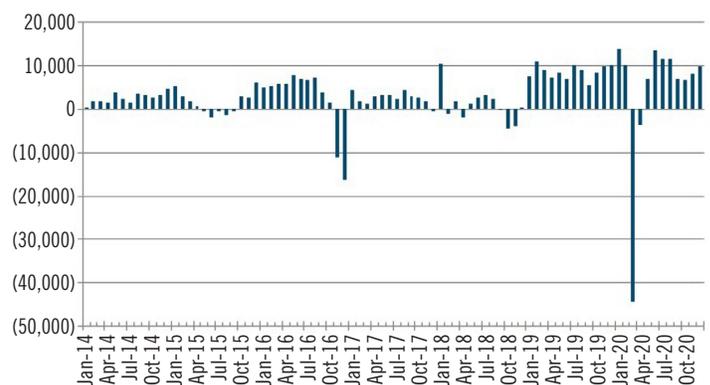
TECHNICALS

The municipal bond market continued to benefit from positive technicals during the fourth quarter, as tax-exempt supply levels remained flat year over year while demand, particularly from municipal bond mutual funds, remained robust. In actuality, with the exception of the huge outflows in March and part of April, monthly fund flows have been positive since the beginning of 2019. As investors have increasingly moved away from owning

individual municipal bonds to professionally managed assets, mutual fund flows have become a helpful gauge on demand for municipal bonds. It is times like we have experienced for much of this year, where strong inflows into funds are matched by stable amounts of supply, that technicals are supportive of stronger valuations and positive performance. This continued demand for municipal bonds and tax-exempt income has driven yields to historic lows. While we believe that these low yields still translate into attractive taxable-equivalent yields after adjusting for taxes, there appears to be limited upside from current evaluations. That said, given the amount of government stimulus already released and the likelihood of more to come, it is difficult to imagine an environment of lower taxes and therefore less demand for tax-exempt income. While there is still much uncertainty as to the future tax implications following the election, recent rhetoric regarding the unwinding of Trump's corporate tax cuts could potentially make municipals more attractive to banks and insurance companies, broadening demand. As a result, we think solid demand should persist, especially for a sector of the market that has historically held a reputation as a safe-haven investment. Additional changes the market will be watching for is the repeal of the state and local tax deduction (SALT), a reversal in the ability to advance refund debt with tax-exempt debt, as well as a possible reinstatement of a Build America Bonds program with a lower federal supplement, all potentially altering municipal technicals going forward.

MONTHLY MUNICIPAL BOND FUND FLOWS

Mutual Fund and ETF Combined (\$mns)



Updated 1/3/21. Monthly data through November 2020. MTD December flows are estimated based on weekly flows through 12/30/20. Sources: CreditSights, ICI, Refinitiv Lipper and Bloomberg.

FUNDAMENTALS

Much focus remains on credit fundamentals and the effect that the pandemic has had on municipal credit. No doubt, there are areas of the market that have been severely impacted by a changing economy, particularly sectors like mass transit, airports, and hospitals as they struggle to support operations

with less revenue. Most municipalities, however, had benefited from the long economic expansion since the great recession and came into the pandemic far stronger financially than in previous economic downturns. As a result, very few issuers are expected to default on their obligations. While the market is seeing an increase in municipal defaults, with numbers higher than in previous years, they seem to be concentrated mostly in high yield, issues that the rating agencies had never rated, and small issuers. One specific area of the market that has experienced a higher amount of defaults is senior living bonds, with concentrations mostly in Florida. As the rating agencies downgraded more municipal credits than they had upgraded in 2020, we have begun to see this trend slow as economic activity has improved amid the prospects for further economic stimulus. Municipalities have continued to benefit from low borrowing costs, increased investment returns, an improved housing market, and access to capital as the municipal bond market has been favorable for issuers.

OUTLOOK

Many changes have been introduced to our day-to-day lives that have helped our economy, plagued by a pandemic, to continue to prosper and remain supportive of municipal credit. Most people are able to shop from home on sites like Amazon and

have items delivered the very next day to their doorsteps, enabling spending to continue and tax collections to flow to municipalities. As a result of the internet and products like Zoom and Teams, many people can work from home and still communicate effectively with clients and co-workers on a regular basis. These and other work-from-home technologies have helped employment and payroll taxes to continue to flow. The housing market is booming across the country as interest rates remain at historic lows, supporting more home ownership and allowing local municipalities to maintain property tax revenue collections. While our country will likely emerge from this pandemic different than when we came into it, we remain cautiously optimistic on municipal credit and the technicals that support evaluations. While market volatility may ensue over the first quarter of 2021 with the change of power in Washington, new policies and legislation, and a vaccine rollout in the face of growing number inflicted with COVID-19, we do expect the economy to grow along with revenues. While the municipal market has held onto its long-coveted reputation of a safe-haven investment, credit and market analysis have grown increasingly important as the virus has impacted many issuers differently. Historically, in times like this, our higher quality investment strategy, distributed across multiple sectors of the market, has provided good 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.

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