Q4 21 MULTI-SECTOR FIXED INCOME

MARKET REVIEW AND OUTLOOK

COVID variants – including the latest strain, Omicron – continue to complicate the response from healthcare systems and policymakers seeking to contain the pandemic. Though some countries have imposed tighter restrictions in response to Omicron, early studies suggest the strain may be less severe than earlier variants.

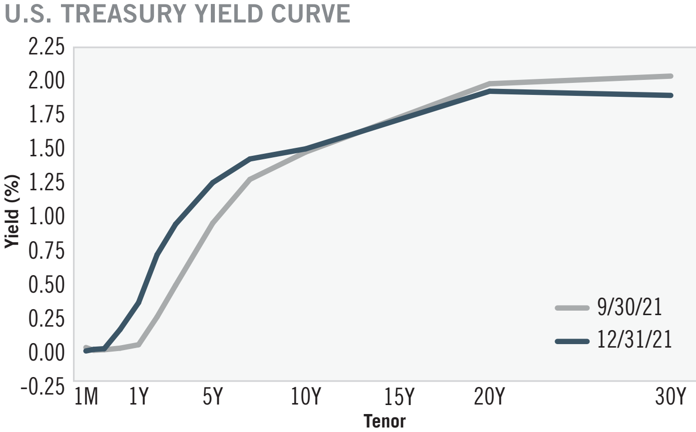
The economy has mostly recovered from the events of 2020 as financial markets grew accustomed to living with the virus, though distortions remain. Employment metrics continue to improve, corporate profits hit a new record for the year, and by many measures the U.S. consumer is in better shape today than pre-pandemic. We expect elevated cash levels and a high degree of personal savings to be a tailwind to growth in the coming quarters.

Meanwhile, the persistence of inflation caused by problems with supply chains, labor shortages and pandemic-induced changes in consumer behavior led the administration's stimulative economic agenda to be put on hold over inflation concerns. With midterm elections on the horizon and narrow congressional majorities in place, it remains to be seen if elements of the stimulus can still move forward in 2022.

We still believe that elevated inflation readings will likely fade over the course of 2022 as developments in technology, globalization, and consumption trends returning to normal levels help keep prices contained.

U.S. Treasury rates increased both on the front end and in the belly of the curve while it decreased on the long end. The 5-year Treasury yield increased 29 basis points, the 10-year Treasury yield was 2 basis points higher, and the 30-year Treasury yield was 14 basis points lower.

U.S. TREASURY YIELD CURVE



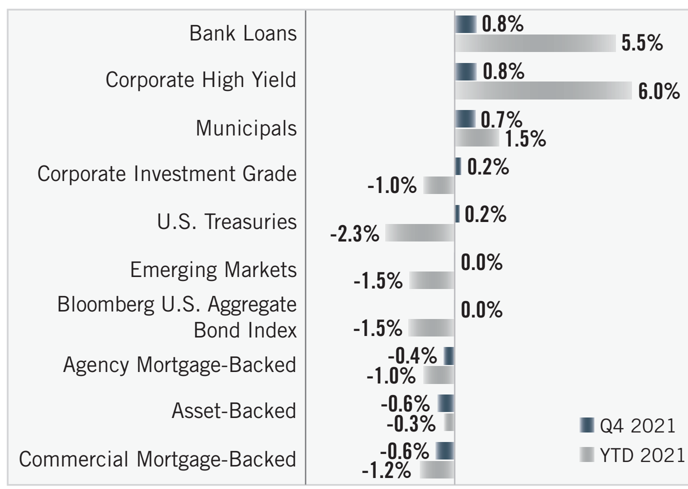
Source: Bloomberg L.P.

In response to higher inflation and a strengthening economy, the Federal Reserve (Fed) has adjusted the pace of the taper. As of November, it had already begun winding down its asset purchases of $120 billion of U.S. Treasuries/mortgage-backed securities (MBS) per month and is now aiming to finish the taper by March 2022 rather than its prior mid-year target. Assuming no more adjustments, interest rate increases are expected to follow in the second quarter.

The pace, timing and magnitude of "lift-off" remains uncertain, but financial markets are pricing in three interest rate increases in 2022 and three more in 2023. In addition to interest rate increases, the market's attention will turn to the Fed's management of its $8.8 trillion balance sheet.

As the market digests the Fed's pivot on inflation, we continue to take advantage of market volatility as it arises. Our approach to fixed income – in which relative value drives our active sector allocation and credit selection decisions – enables us to scan the bond market for the most attractive investment opportunities and is ideally suited for the current environment.

FIXED INCOME SECTOR PERFORMANCE



Performance as of December 31, 2021.
Sources: J.P. Morgan: Emerging Markets (EMBI Global), Corporate High Yield, Bank Loans; Bloomberg Municipal Bond Index: Municipals; Bloomberg U.S. Aggregate Bond Index: All other sectors.
Past performance is no guarantee of future results.

FIXED INCOME SECTOR PERFORMANCE

Spread sector returns were mixed relative to U.S. Treasuries due to modest volatility in the fixed income markets during the quarter. Higher beta, less interest rate sensitive sectors such as high yield bank loans and corporate high yield securities generally outperformed.

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

CORPORATE INVESTMENT GRADE

The Omicron variant introduced moderate volatility to spreads, which had been range bound between 80 and 90 basis points through the second and third quarters. Spreads gapped out from 81 in late September to 101 in early December before rallying to end the year at 92. For the full year, spreads basically went sideways (96 to 92), and the consensus forecast is for another sideways year in 2022. This is not an exciting forecast – and we are slightly more bullish than the consensus – but the backdrop of improving fundamentals, stable technicals, and tight valuations point towards a flat base case.

Fundamentals are encouraging. For the S&P 500, third quarter earnings clocked in 9% ahead of expectations with 40% year-over-year growth. The market anticipates 20% growth in earnings for the fourth quarter and 9% growth for the full year 2022. Leverage, as of 9/30, had fully retraced its pandemic spike, and will fall in the fourth quarter as earnings growth outpaces debt growth. We anticipate leverage to migrate lower early in 2022. In the final quarter, rising stars outpaced rising angels 16-1 at Moody's and 23-2 at S&P. We should see more rising stars than fallen angels in 2022 potentially including some larger issuers (Freeport, Ford, Kraft).

INVESTMENT GRADE ISSUER UPGRADES/DOWNGRADES IN 2021

	Moody's	S&P
Upgrades	140	134
Downgrades	75	99
Rising Stars	38	48
Fallen Angels	6	16

Source: Bloomberg Finance L.P.

Supply continued to be manageable in the fourth quarter with $84 billion of net supply – an average number for a seasonally quieter period for issuance. For the full year, net supply was on top of the five-year average (ex-2020) and most forecasts call for a similar net supply figure in 2022. Note that because the market is growing, a similar net supply figure in absolute terms is a smaller percentage of the market (due to slowing growth).

On the demand side, mutual fund flows were positive in October and November before turning negative in December, especially on the front end where rates began to rise post Fed-meeting. Foreign buying appeared to be steady in the fourth quarter and the persistence of this demand is a larger question for 2022 with rising rates and a strengthening dollar.

Valuations regained some value in the fourth quarter but remain close to the all-time lows on a duration/quality adjusted basis. Given these tight spreads and the asset class's sensitivity to rising rates, our allocation enters 2022 at a five-year low. We still favor BBBs and financials and are positioned to take advantage of opportunities as they arise in the new year.

CORPORATE HIGH YIELD

The high yield market was somewhat volatile during the fourth quarter as the Omicron headlines hitting around Thanksgiving caused spreads to jump wider. However, data suggesting the Omicron variant is less severe and governments' desire to avoid lockdowns drove market participants to bid most securities back to pre-Omicron levels by early December.

While full year issuance set a record that surpassed 2020's record year, the Omicron news plus the holiday season led to a sharp decline in issuance during the month. That combined with strong inflows into year-end helped the index hit a new all-time high. Total return for the index was 5.26% but just 0.70% was generated in the fourth quarter. Spreads traded in a range of +272 basis points to +342 basis points and ended the year at +284.

Third quarter earnings were varied across individual companies depending on how they managed supply chains and rising input and wage costs. Fed policy that appears to be moving towards a more hawkish stance also weighed on the market.

Higher quality outperformed in the fourth quarter, but performance variation was mild across rating tiers. Investors remain cautious on CCCs given still tight valuations and potential economic headwinds coming in 2022. Our outlook for 2022 is for returns near the current yield on the index of 4.5%. Spreads inside of long-term averages and historically low Treasury rates make for a challenging environment to generate returns meaningfully above coupons.

Having said that, we retain a favorable view on the asset class given the supportive fundamental backdrop driven by above-average economic growth and reasonable credit metrics. Its technical picture also benefits from the dearth of yield in most other fixed income segments, many of which offer negative real yields at current inflation rates.

BANK LOANS

The fourth quarter got off to a muted start in October (+0.27%) while the market took time to digest September's record supply. As Omicron, inflation, and hawkish comments from the Fed all took a toll on the market in November, returns dipped down into negative territory for the month (-0.16%). Strong demand coupled with diminished supply enabled the quarter to finish at 0.64% for December with overall returns of 0.75%. For the full year, loans returned 5.2%.

The quarter's positive finish topped off a year that set multiple records for bank loans in gross issuance ($615 billion), overall size of the market ($1.35 trillion) and M&A-tied leveraged deals ($331 billion). Record supply was also met with record demand – December marked the thirteenth

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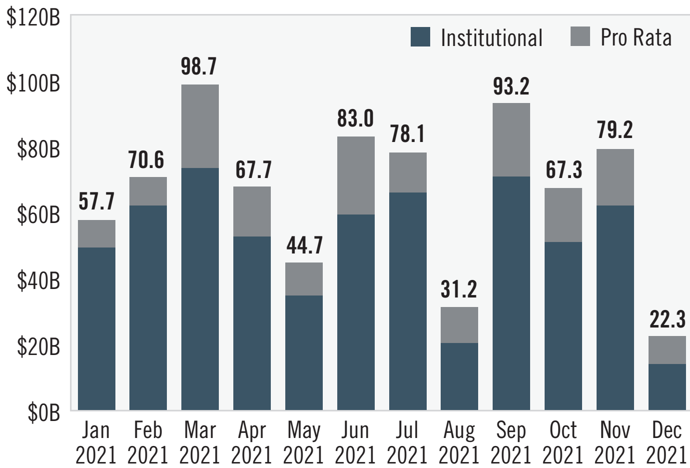
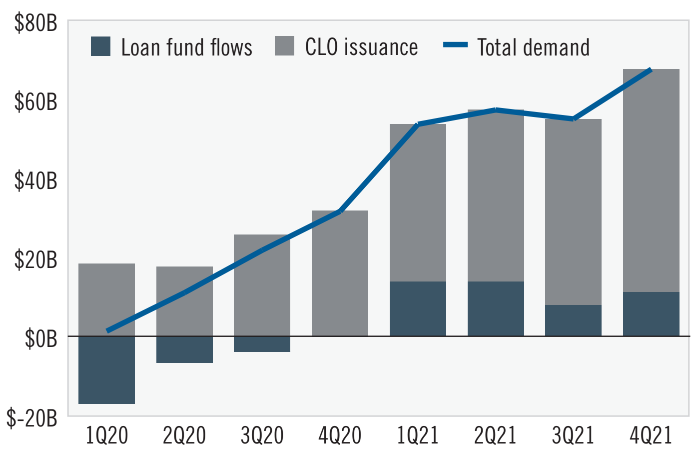
straight month of inflows into the asset class. The Fed's hawkish pivot will likely continue to stoke demand for loans as investors increasingly prioritize duration risk in the wake of at least three forecasted rate hikes for 2022.

U.S. LEVERAGED LOAN VOLUME



Data through December 31, 2021.
Source: Leveraged Commentary & Data (LCD).

U.S. LOAN MARKET INVESTOR DEMAND

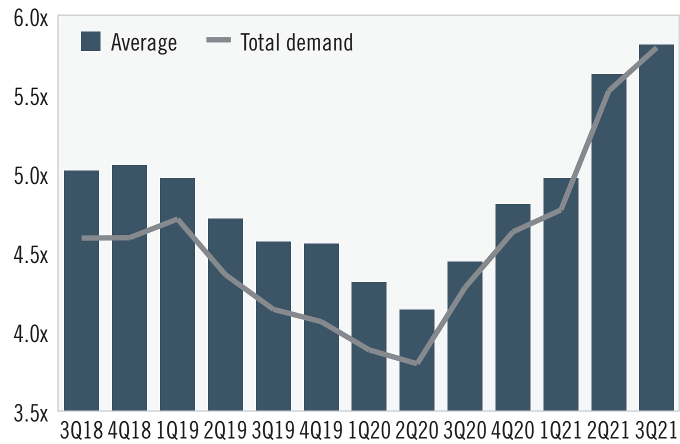


Data through December 31, 2021. Fund flows data includes monthly reporters.
Sources: Leveraged Commentary & Data (LCD); Lipper.

Standouts for the quarter include metals/mining and oil/gas (with the caveat that they comprise just 3% of the loan market). Most sectors were market performers, including casinos, retail, and food. The only sector with negative returns for the quarter was radio/TV.

Meanwhile, GDP projections were revised down as new COVID-19 strains and supply chain issues continued to sow market uncertainty. That said, fundamentals remain sound overall: consensus forecasts still show above-average GDP growth of 3.9% for 2022, though we recognize COVID-19 variants and inflation could create volatility. Interest coverage metrics for outstanding leveraged loans also remains strong, while the default rate, unchanged at 0.29% as of December, is expected to linger at post-crisis lows.

INTEREST COVERAGE – OUTSTANDING US LEVERAGED LOANS



Data through September 30, 2021.
Sources: Leveraged Commentary & Data (LCD).

Last quarter we said we would be closely monitoring companies' ability to withstand issues around supply chain, labor shortages, and soaring raw material prices. Thus far, they have mostly succeeded – third quarter earnings showed companies holding strong as they achieved cost savings and passed on price increases to the consumer. Looking ahead, we continue to move out of industries disproportionately impacted by labor shortages and inflation, such as healthcare and packaging, adding to more inflation-insulated industries such as tech.

We have also been closely watching the CLO market's transition away from LIBOR as investors raced to issue CLOs ahead of the year-end deadline. With two SOFR-based CLO deals recently announced, the CLO market may be starting to transition to SOFR sooner than anticipated. If this trend continues, the impact of the LIBOR phase-out on the market may ultimately prove to be minimal.

That said, we are keeping a close eye on credit spread adjustments for SOFR deals – i.e., the extra interest paid to investors to compensate for the historical price differential between the LIBOR and SOFR benchmarks. The market is currently using multiple methods to incorporate these adjustments, but it will likely standardize and consolidate around one of these methods – time will tell which one will win out.

EMERGING MARKET DEBT

EM Sovereign Debt: Returns for the quarter were relatively flat with the sovereign index (JPM EMBI Global) up +0.02%, though it finished the quarter and year strongly with a 1.43%

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return for December. The full year return on the index was a dismal -1.51% – only the fourth year since 2004 in which EM total return has been negative, with 2018 being the most recent example, and prior to that, 2013.

EM index spreads moved wider by 6 basis points during the quarter to finish at 327 but reached a high point of 350 in late November over initial concerns around the new Omicron variant and the Fed's pivot to a more hawkish tone. Meanwhile, the U.S. Treasury curve continued to flatten with 10-year yields up 2 basis points to 1.51% during the quarter, while 30-year yields moved down by 14 basis points to 1.90%, providing some support to long duration EM sovereign index returns. Rates were quite volatile during the period with 10- and 30-year yields reaching 1.34% and 1.67% in early December.

The overall EM index yield-to-worst at 4.89% at 12/31/21 is relatively attractive compared with other fixed income alternatives, but low from a historical context. The index spread-to-worst at 327 basis points was also well inside the long term ten-year average index spread of 356 basis points.

Some performance highlights from the quarter:

> EM high yield underperformed with a -1.49% total return compared to +1.06% for the investment grade sub-index. While BB-rated returns were positive at 0.74%, the lower rating tiers materially underperformed with a B-rated return of -3.1% and a CCC-rated return of -5.0%.

> Long duration bonds (10+ years and 43% of the index) posted a +1.13% return in aggregate, consistent with the U.S. Treasury curve flattening during the quarter.

> Notable outperformers at the country level included long duration investment grade issuers like Uruguay, Mexico, Peru, Philippines, and Indonesia along with a couple of high yield issuers such as Oman and South Africa.

> Among the worst performers were defaulted names like Lebanon and Venezuela along with distressed issuers Ethiopia, El Salvador, and Sri Lanka. Ukraine and Turkey also materially underperformed – the former due to negative geopolitical developments, and the latter due to the enactment of unorthodox interest rate policy.

EM Corporate Debt: The EM corporate index (JPM CEMBI Diversified) return was -0.67%, with investment grade bonds outperforming high yield by 96 basis points (-0.24% vs -1.20%). Turkey, China, and Macau sub-indexes were notable underperformers during the period, posting -3.6%, -3.2%, and -2.2% total returns respectively. Turkey's corporate valuations were pulled down in tandem with sovereign returns due to its unorthodox monetary policy. In China, the property sector crisis continued to envelop more issuers, while in Macau, concerns remained over more restrictive government regulation of the gaming sector. The overall real estate sub-index posted a -4.5% total return.

EM Local Market Debt: Local market returns were a dismal -2.5% for the quarter, bringing the full year return to -8.75% on an unhedged U.S. dollar basis – the third worst year on record only topped by 2015 and 2013. The three worst performers in the period were Turkey -38% (-49% full year) after policymakers decided to lower interest rates despite double digit inflation trends, Hungary -10.3% (-18%), and Poland -9.4% (-17.1%), with the latter two getting hit by Omicron-related concerns.

Outlook: We think there are select opportunities to generate alpha through credit selection in the high yield portion of the EM hard currency market. At least for now, we continue to be wary of local market debt where we have had little to no exposure for several years.

> Overall, we see potential for further spread widening in EM in 2022 with relatively tight spread valuations on a historical basis combined with an increasingly hawkish Fed, risk to the downside on DM and China growth projections, and fundamentally weaker EM issuers post-pandemic with generally higher debt to GDP levels and still wide, albeit improving, fiscal deficits.

We believe inflation pressures will begin to ease as global supply chain bottlenecks are reduced and tighter monetary policy puts a brake on demand without choking it off. Energy shortages across Europe and widening distress across the Chinese property sector are among the risks to monitor. While the spread of Covid remains an issue, if new variants continue to remain less severe, then we are likely to experience diminishing restrictive policies by governments on a global basis.

SECURITIZED PRODUCTS

Securitized product returns for the fourth quarter were negative, driven both by interest rates backing up on the front part of the yield curve and negative supply technicals. The 2-year U.S. Treasury backed up 46 basis points to yield 0.73% at the end of the year. In addition, new issue supply exceeded expectations, driving spreads wider. Note: the fourth quarter witnessed the strongest issuance levels of the last 15 years. The securitized components of the Bloomberg U.S. Aggregate Index returned -0.57% for ABS, -0.64% for CMBS, and -0.37% for MBS.

After a lull in issuance for the better part of 2020, securitized issuance strongly exceeded forecasted expectations for 2021. For example, ABS supply exceeded forecasts by over

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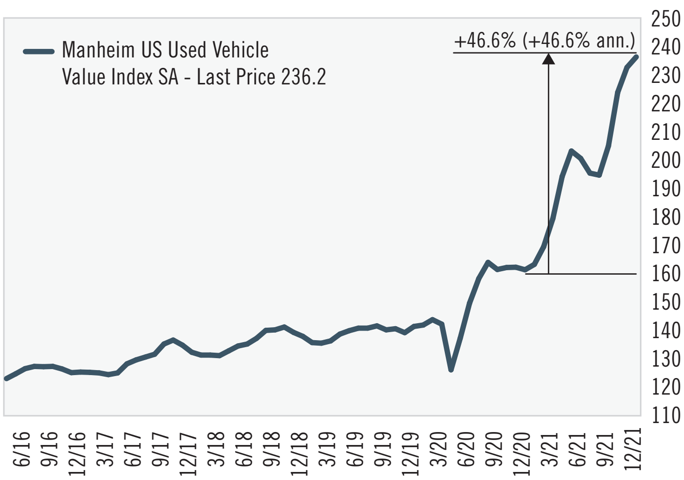
50% while CMBS exceeded forecasts by 150%. The RMBS new issue market had its largest year post-global financial crisis. Looking ahead to 2022, most street forecasts call for issuance levels to slightly exceed this year's supply tally.

The fundamental picture for the U.S. consumer steadily improved as the unemployment rate continued to trend lower, falling from 5.2% in June to 3.9% in December – a new pandemic-era low. Although the savings rate has trended lower than pre-pandemic levels, the U.S. consumer is sitting on $2.3 trillion of excess savings thanks to the Federal Reserve's easy money policies. We continue to witness solid fundamental credit performance from our consumer asset-backed investments.

The auto loan segment, where we have significant exposure, continues to see strong tailwinds as well. The ongoing chip shortage continues to delay new car production, depressing vehicle supply and driving prices higher. The Manheim U.S. index indicates that used car valuations appreciated almost 49% during 2021. Secondary vehicle valuations are important to the asset-backed market as increased recovery values on auto loan defaults ultimately flow to bondholders in form of increased collections.

USED CAR VALUATIONS



Data through December 31, 2021. Source: Bloomberg Finance LP.

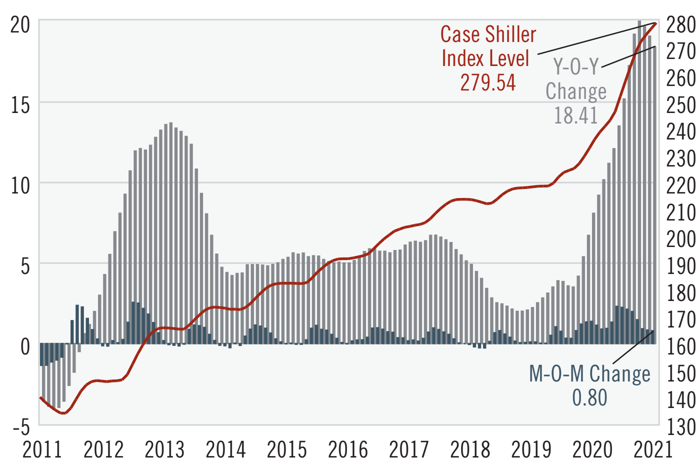
The commercial mortgage market continued to heal during the third quarter as indicated by continued asset appreciation. Transactional activity continued to accelerate as the CRE buys/sales reached 2019 levels. According to the Real Capital Analytics (RCA) National Property index, which measures appreciation or depreciation based on repeat sales, the commercial real estate market has appreciated 18.40% on a year-over-year basis through November 2021 led by strong performance in multifamily and industrials.

The RCA also shows suburban office properties are up 15.1% on a year-over-year basis. Major city office properties have lagged as RCA reports asset appreciation up 3.6% on a year-over-year basis. While office properties continue to demonstrate stability due to long-term leases already in place, the verdict is still out on their medium-term performance as underlying tenant leases begin to roll, especially in high-cost markets.

U.S. hotels continued to rebound as high Christmas-day and holiday week occupancy rates boosted performance. Within hotel segments, economy and midscale have continued to outperform the luxury and upscale markets.

The housing market continues to reach new highs, with the latest report showing 18% year-over-year gain for October 2021. Increasing homeowner equity continues to boost the non-agency residential mortgage-backed securities market. The chart below demonstrates the strength of the housing market even during the pandemic. We will be watching closely to see how the residential market performs during the next few quarters as affordability issues arise.

S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX



Data through October 31, 2021. Source: Bloomberg Finance LP.

We are currently in a coupon-clipping environment where opportunities for outperformance are thin, spread levels and yields for most asset types are at or near historic lows, and the cost of being wrong is heightened. Our efforts are focused on the new issue markets, which continue to experience very strong demand across all securitized sectors. We have focused new dollar investments on the more conservative parts of the capital structure and aim to be selective when taking on credit risk. We continue to monitor and adjust the portfolio based on ever-changing economic news. More importantly, we are positioned to take advantage of any future credit dislocations.

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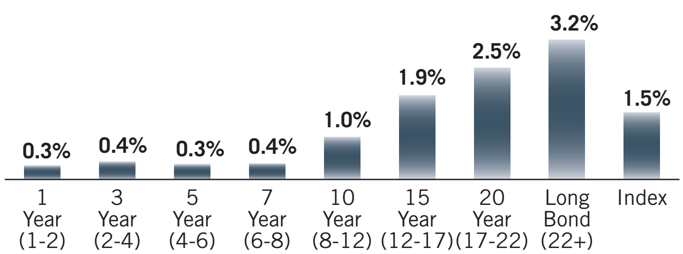
TAX-EXEMPT MUNICIPAL BONDS

The municipal bond market produced solid performance for the three-month period ended December 31, 2021, as the market continued to benefit from record inflows and reasonable levels of newly issued tax-exempt debt. Tax-exempt municipal bonds were the top performing investment grade rated fixed income asset class in 2021 according to Bloomberg's fixed income indices. While U.S. Treasury yields rose during the fourth quarter, municipal yields were largely unchanged or even lower over that timeframe, supported by record demand.

PERFORMANCE BY MATURITY

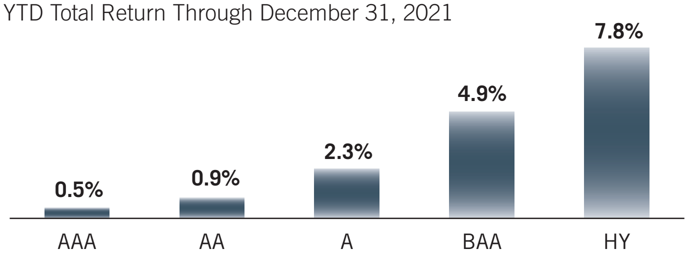
Bloomberg Municipal Bond Index
YTD Total Return Through December 31, 2021



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

PERFORMANCE BY QUALITY

Bloomberg Municipal Bond Index
YTD Total Return Through December 31, 2021



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

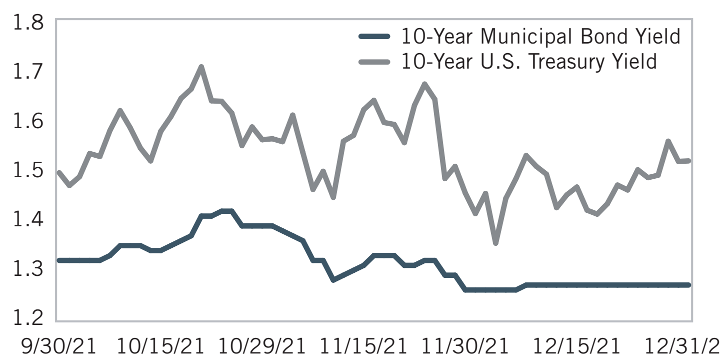
With municipal credit on solid footing, investors showed little concern for risks associated with lower-rated municipal bonds. As a result, BBB-rated bonds in the Bloomberg Municipal Bond Index returned 4.85% for 2021 with higher quality bonds returning only a portion of that.

Demand for tax-exempt income remained strong during the final quarter after persisting for the entire year – all 52 weeks recorded positive inflows. According to Refinitiv Lipper U.S. Fund Flows, municipal bond funds saw inflows of over $101 billion in 2021, breaking the previous record set in 2019. As demand outpaced new issuance, it helped support valuations amid rising Treasury rates.

Supply did not increase as expected earlier in the year as municipalities benefited from improved revenue collections, remained flush with cash from the federal stimulus, and waited on Washington to pass an infrastructure bill. Furthermore, large infrastructure projects are not always "shovel ready" and require longer timeframes to get necessary approvals. While the passage of the infrastructure package should translate to increased municipal issuance, the market may be waiting for longer than anticipated.

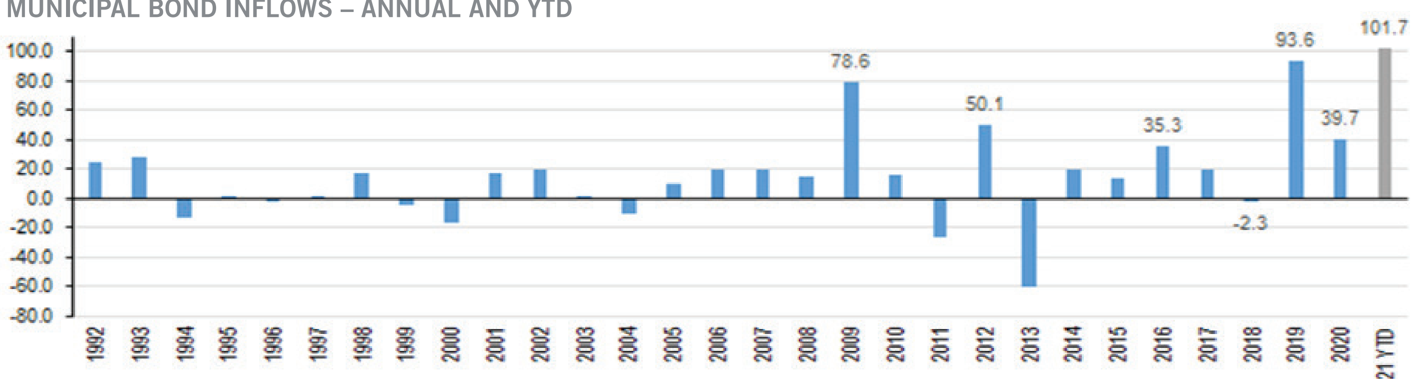
With the Federal Reserve committed to taming inflation, the technicals that supported the municipal market last year should help it outperform. The fourth quarter saw increased U.S. Treasury volatility as the market responded to economic news and the Omicron variant, but surprisingly municipal yields remained fairly range bound. While we expect demand to continue, higher interest rates may start to temper investor demand.

4Q21 10-YEAR MUNICIPAL BOND YIELDS VS. 10-YEAR U.S. TREASURY YIELDS



Past performance is no guarantee of future results.
Source: Bloomberg Finance LP, Municipal Market Analytics Inc.

MUNICIPAL BOND INFLOWS – ANNUAL AND YTD



Source: Refinitiv Lipper US Flow, JP Morgan. Note: Combined weekly and monthly flows for the period ending 12/29/2021.

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Municipal credit fundamentals remain in good shape because of improved tax collections and stimulus money. However, investors will need to be mindful as federal aid phases out, potentially ending the current benign credit perception. The infrastructure package should provide money for capital projects, but municipalities will still face serious challenges to improve pension plan funding and protect communities against climate change.

Given the performance of lower-rated municipal bonds last year, we believe the 2022 municipal market will not see a repeat of the massive tightening of credit risk spreads that it enjoyed over the previous 12+ months. While defaults will likely remain rare, we believe our higher quality investment strategy, distributed across multiple sectors of the market, should provide good relative performance over the long term.

Even as federal tax hikes did not materialize, investors' reasons for owning municipal bonds remain unchanged – we expect investor demand to remain influenced by both the prospect of rising taxes and municipal bonds' historically lower correlation to other asset classes. While 2022 may produce a positive total return, we expect performance will likely be generated primarily by coupon income and less by price appreciation, especially if U.S. Treasury rates drift higher.

For more detail on tax-exempt municipal bonds in the fourth quarter, see Newfleet's 4Q21 Municipal Bond Market Review on Virtus.com

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 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. 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 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.