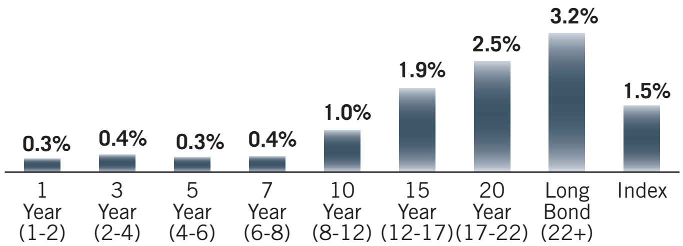
PERFORMANCE

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 into municipal bond mutual funds and reasonable levels of newly issued tax-exempt debt, creating a beneficial supply/demand imbalance that tends to favor increased valuations. In fact, tax-exempt municipal bonds were the top performing investment grade rated fixed income asset class in 2021 as measured by 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 time frame, supported by the record demand for tax-exempt bonds.

PERFORMANCE BY MATURITY

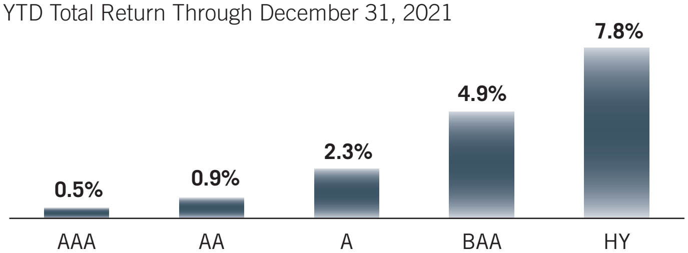
Bloomberg Municipal Bond Index
YTD Total Return Through December 31, 2021



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 remaining on solid footing as a result of unprecedented levels of federal stimulus money, investors showed little concern for the risks associated with lower-rated municipal bonds. As a result, BBB-rated bonds within the Bloomberg Municipal Bond Index returned 4.85% for 2021 with higher quality bonds returning only a portion of that.

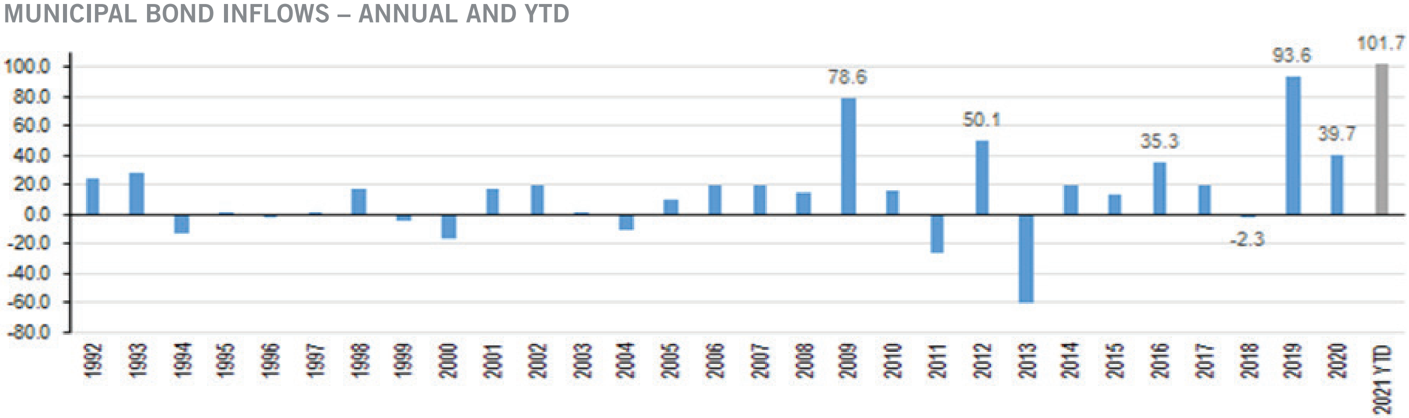
TECHNICALS

The demand for tax-exempt income remained strong during the final quarter of the year, with investors continuing to buy municipal bonds at a record pace. This demand persisted for the entire year, with all 52 weeks recording positive inflows into municipal bond funds. According to Refinitiv Lipper US Fund Flows, municipal bond funds saw inflows of over $101 billion in 2021, breaking the previous record set in 2019 where inflows totaled almost $94 billion.

This strong demand helped to support valuations amid rising U.S. Treasury rates as demand outpaced the available new issuance. With municipalities flush with cash from the Federal stimulus money, benefitting from improved revenue collections, and still waiting on Washington to pass an infrastructure spending bill, supply did not increase as originally expected earlier in the year. While the need to improve the aging infrastructure is evident, large infrastructure projects are not always "shovel ready" and require longer timeframes in which to get the necessary approvals. While the passage of the infrastructure package should translate to increased municipal issuance going forward, the market may be waiting for a longer period than originally anticipated.

With the Federal Reserve committed to taming inflation through raising rates, the strong technicals that have supported the municipal market throughout last year should help municipals outperform. The fourth quarter saw increased U.S. Treasury rate volatility as the market responded to the latest economic data or COVID variant, but surprisingly municipal yields remained fairly range bound.

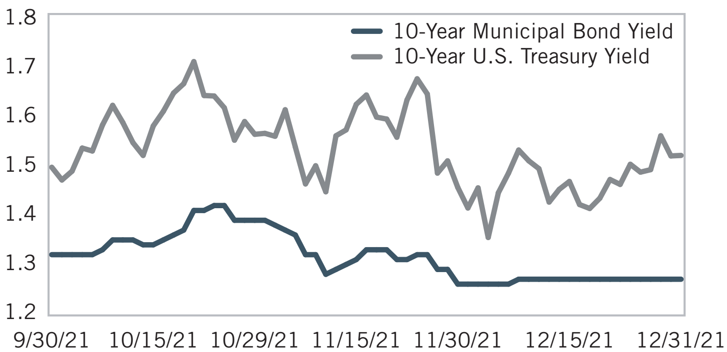
MUNICIPAL BOND INFLOWS – ANNUAL AND YTD



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

We would expect this same pattern to persist, with municipals taking their lead from the Treasury market, but with far less volatility. While we expect demand for tax-exempt bonds to continue, higher interest rates may start to temper investor demand. Should this begin to occur, we would likely see that as a buying opportunity.

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.

FUNDAMENTALS

Municipal credit fundamentals remain in fairly good shape because of improved tax collections and stimulus monies during much of the pandemic. While municipalities have been able to bolster their balance sheets, investors will need to be mindful as the federal aid is phased out, potentially ending the benign credit perception that has been in place.

The federal infrastructure package should provide some needed 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 that the 2022 municipal bond market will likely not see a repeat of the massive tightening of credit risk spreads that it enjoyed over the previous 12+ months as the spread premiums between below investment grade-rated bonds and BBB bonds, compared to AAA rated municipal bonds, hover at historical tight levels not seen since 2007. While municipal defaults will likely remain a rare event, we believe that our higher quality investment strategy, distributed across multiple sectors of the market, should provide good relative performance over the long term.

OUTLOOK

Even as federal tax hikes did not materialize, most investors' reasons for owning municipal bonds remain unchanged. Our expectation is that investors will remain influenced by the prospect of rising taxes, while municipal bonds' historically lower correlation to most other asset classes should provide protection and safety, especially if the economy struggles with rising interest rates or higher credit risk premiums. While 2022 may produce a positive total return, we expect that performance will likely be generated primarily by coupon income and much less by price appreciation, especially if U.S. Treasury interest rates drift higher during the year.

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 U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. The **Bloomberg Municipal Bond Index** is a market-capitalization-weighted index that measures the long-term tax-exempt bond market. The **Bloomberg High Yield Municipal Bond Index** consists of noninvestment-grade, unrated, or below Ba1 bonds. The indexes are calculated on a total return basis. They are unmanaged, returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

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